Comprehensive Annual Financial Report

State Retirement and Pension System of Maryland

A Pension Trust Fund of the State of Maryland

For the Year Ended June 30, 2007

Prepared by:
State Retirement Agency of Maryland
120 East Baltimore Street
Baltimore, Maryland 21202

MISSION STATEMENT

The Board of Trustees of the State Retirement and Pension System of Maryland (System) is charged with the fiduciary responsibility for administering the survivor, disability and retirement benefits of the System's participants, and to ensure that sufficient assets are available to fund the benefits when due. To accomplish this mission the System has established the following key goals:

- To prudently invest System assets in a well diversified manner to optimize long-term returns, while controlling risk through excellence in execution of the investment objectives and strategies of the System.

- To effectively communicate with all retirement plan participants to inform them about the benefits provided by the System, and to educate them about planning and preparing for all aspects of their future retirement.

- To accurately and timely pay retirement allowances provided by State pension law to the System's retirees and their beneficiaries.

- To implement an automated, comprehensive and integrated pension administration and electronic document management system.

- To efficiently collect the required employer and member contributions necessary to fund the System.

Introductory Section:

Financial Section:

Investment Section:

Actuarial Section:

Statistical Section:

Plan Summary Section:

STATE RETIREMENT
and PENSION SYSTEM
of MARYLAND

STATE RETIREMENT AGENCY
120 East Baltimore Street
Baltimore, MD 21202
Tel: 410-625-5555
1-800-492-5909
TDD/TTY 410-625-5535
www.sra.state.md.us

December 15, 2007

Dear Members, Retirees and Beneficiaries:

On June 30, 2007, the Maryland Retirement and Pension System (the "System") closed out another very successful fiscal year. Yours is a retirement system that remains administratively and financially strong. As a participant in the System, you can remain confident that your pension benefits are secure and that the services you require, either before or during your retirement, will be effectively delivered.

The System's investment portfolio witnessed its fourth consecutive year of strong returns. With a total investment return of 17.6% for the 2007 fiscal year, the System's total assets under management increased from $34.4 billion to $39.4 billion, a $5.0 billion increase. Over the last four fiscal years, net assets have increased $9.2 billion.

Other notable investment related accomplishments include the Board's funding of an Emerging Manager program, overseen by Northern Trust Global Advisors. This program is designed to diversify the System's manager base, generate strong returns and provide robust risk management. Geographic diversification of the System's real estate assets was achieved through the addition of a global REIT manager. The Board of Trustees continues to work diligently to ensure that the System's portfolio reflects market opportunities while maintaining an appropriate level of risk.

During the 2007 legislative session, the General Assembly approved legislation that gives the Board of Trustees the authority to set the compensation for the System's Chief Investment Officer. This will enable the Board to attract and retain the investment expertise it requires to ensure future investment returns. Significant progress has been made in the development of the Maryland Pension Administration System (MPAS-1) project to replace the Legacy Pension System (LPS). The new custom-developed system will perform the same functions as the LPS, but with a modern technology architecture that can be more easily maintained and enhanced. This updated information technology will ensure that the Retirement Agency's business operations maintain optimal efficiency. The project is on schedule with implementation scheduled for July 2008.

The Board announced that John Douglass was reelected as the Board of Trustees representative for retired State Employees having had an uncontested election. The Board also announced the election of Theresa Lochte as the Board of Trustees representative for retired State Teachers. Ms. Lochte also ran uncontested and replaces Carl Lancaster who faithfully served on the Board for 20 years.

We are also very pleased that Governor Martin O'Malley has appointed three new Trustees including Robert W. Schaefer, Harold Zirkin, and Thurman W. Zollicoffer, Jr.

Finally, in January, the Board named R. Dean Kenderdine as Executive Director of the State Retirement Agency. Mr. Kenderdine is an experienced government professional who was very familiar with the Agency at the time of his appointment having served it twice as Interim Executive Director. The Board has the utmost confidence in his abilities and looks forward to many years of his continued service to the System.

Your benefits continue to be safe and secure. As always, your support and participation are greatly appreciated.

Sincerely,

Nancy K. Kopp

NANCY K. KOPP
Chairman

Peter Franchot

PETER FRANCHOT
Vice Chairman

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R. Dean Kenderdine
Executive Director
Secretary To The Board

LETTER OF TRANSMITTAL

December 15, 2007

Honorable Chairman and Members of the Board of Trustees:

We are pleased to submit the Comprehensive Annual Financial Report for the State Retirement and Pension System of Maryland (the "System") for the fiscal year ended June 30, 2007. We believe this report fairly presents the operating results achieved during this 12-month reporting period.

The System is responsible for properly administering retirement, disability, and death benefits. At the same time, it strives to keep employer contribution rates as reasonable as possible by maximizing investment returns while maintaining an acceptable level of risk. Members covered by the plans include State employees, teachers, law enforcement officers, legislators, judges, as well as local government employees and fire fighters whose employers have elected to participate in the System.

The System currently provides monthly allowances to more than 108,000 retirees and beneficiaries, and is an essential element of the future financial security for over 196,000 active participating members. Descriptions of the membership requirements and benefits provided by each plan administered by the System are included in the Plan Summary Section starting on page 96.

This Comprehensive Annual Financial Report contains six sections. The Introductory Section provides information about the administrative structure of the System. The Financial Section provides a comprehensive review of the System's financial position, the results of its operations and its funded status. The Financial Section also contains the report from the System's independent auditor, the combined financial statements and supplementary financial data thereto. The Investment Section includes a report highlighting the System's investment performance in addition to various summary level portfolio compositions and other investment data. The Actuarial Section contains the independent actuary's report on the results of the System's annual actuarial valuation. The Statistical and Plan Summary Sections provide demographic composition of the System's membership segments affected by each plan and detailed descriptions of the various plans' provisions. In addition to this Letter of Transmittal, additional narrative, overview, and analysis can be found in Management's Discussion and Analysis beginning on page 15.

ECONOMIC CONDITION

The System continued to experience strong investment gains during the fiscal year. The System's total assets under management increased from $34.4 billion to $39.4 billion, a $5.0 billion increase. Fund investments returned 17.6% in fiscal year 2007, which surpassed the return of 10.4% during fiscal 2006 and continued to remain above the System's actuarially determined target investment return of 7.75%, net of expenses.

MAJOR ISSUES AND INITIATIVES

The System remains financially sound and committed to its long term funding goals. However, the Board continues to be deeply concerned with the methodology used to calculate annual contributions to the trust fund and remains committed to its recommendation to change this funding method. The Board and staff have spent a considerable amount of time thoroughly reviewing the current methodology, known as the Corridor Method, and the impact that this methodology is having on the System. Under the Corridor Method, contribution rates for the two largest systems, the employees' and teachers' systems, are fixed from year to year as long as the funded status for each of these systems remain in a "corridor" of 90% to 110%. The Board's review concluded that this funding methodology, required by statute, should be replaced with the actuarially determined contribution rate for each plan.

Effective for the June 30, 2007 actuarial valuation, the System changed its actuarial funding method from the aggregate entry age normal cost method to the individual entry age normal cost method. This change in funding method, on the recommendation of the System's actuary, resulted in a decrease in the System's funded ratio from 82.78% to 76.84%. Had this change in actuarial funding method not occurred, the System's funded ratio would have increased to 84.63%. The decision to change the funding method was a responsible and appropriate modification to the reporting of plan liabilities.

In the investments area, the System continues to refine its compliance framework to oversee external asset managers and implementing asset allocation changes. For example, with the help of the System's master custodian, State Street Bank and Trust Company, the Investment Division utilizes a software tool that permits staff to independently assess equity and fixed income managers' compliance with their investment guidelines.

In the benefits administration area, the Agency continued working with the legislature to simplify existing pension law and documenting internal procedures and calculations. These initiatives facilitate implementation of information technology enhancements undertaken by the Agency. Accordingly, the Agency continues its development of the new Maryland Pension Administration System (MPAS) project. MPAS is a multi-phase project. The goal of phase one of MPAS is a new agile technology architecture for the System with anticipated completion scheduled for early fiscal year 2009.

FINANCIAL INFORMATION

The financial statements included in this report are the responsibility of the System's management. Accordingly, management has committed the resources necessary to maintain an internal control structure that provides reasonable assurance that assets are adequately safeguarded, financial records are consistently and accurately maintained, and transactions are properly executed. We are confident that the financial statements, supporting schedules and statistical tables included in this report fairly present the System's financial condition and the results of its operations.

ACCOUNTING SYSTEM AND REPORTS

The System reports its transactions on the accrual basis of accounting. Under this method, revenues are reported in the accounting period they are earned and become measurable, and expenses are reported when the related liability is incurred. Investments are reported at fair value at fiscal year end. Investment purchases and sales are reported in the accounting period in which the related trade dates occur.

REVENUES

The reserves necessary to finance retirement allowances and other benefits are accumulated through investment earnings and the collection of employer and member contributions. During fiscal year 2007, investment earnings were $5.9 billion, while revenues from employer and member contributions were $834 million and $319 million, respectively. For fiscal year 2007, member contribution rates increased from 2% to 3%, while employer rates varied depending on the system.

EXPENSES

The System's expenses consist of monthly retirement allowances, refunds of contributions to terminated and transferring members and withdrawing employers, and the administrative cost of System operations. Payments to retirees, beneficiaries and transferring or withdrawing members and employers continued to be the System's primary disbursements during 2007, totaling $1.98 billion. Of this amount, the System disbursed $1.97 billion as retirement allowances to members and beneficiaries. In addition, the System disbursed $196.3 million to manage the investment portfolio and to administer the System, of which $175 million was paid for investment management, portfolio custody, and securities lending services and $21.3 million was used to fund the System's administrative operations.

FUNDING AND RESERVES

At June 30, 2007, the System's actuarial accrued liability was $49.3 billion and the unfunded actuarial accrued liability totaled $11.4 billion. The portion of the unfunded actuarial accrued liability that existed at June 30, 2000 will continue to be amortized over the remaining 13-year period to June 30, 2020, whereas each subsequent annual liability layer will be amortized over a 25 year period.

INVESTMENTS

We are pleased the System delivered a fourth consecutive year of solid returns posting a 17.6% return during fiscal year 2007 for plan participants and beneficiaries. In fiscal year 2008, the Agency will continue to implement the optimal asset allocation necessary to generate an attractive return expectation while maintaining acceptable levels of investment risk.

PROFESSIONAL SERVICES

The System contracts for the services of various independent consulting, investment advisory and financial professionals to assist the Board of Trustees in carrying out its fiduciary responsibility to efficiently and effectively manage the System. Actuarial services were provided by The Segal Company and independent financial statement audit services were provided by Abrams, Foster, Nole & Williams, PA. The System's asset custody and portfolio accounting services were provided by the State Street Bank & Trust Company under a multi-year, master custody arrangement. Ennis Knupp & Associates serves as the System's general investment consultant. Specialty consulting services are provided by Altius Associates Limited and PCA Real Estate Advisors, Inc. for private equity and real estate, respectively. A complete listing of the System's professional consultants and external investment advisors is presented on page 11.

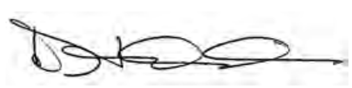
CERTIFICATE OF ACHIEVEMENT
FOR
EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State Retirement and Pension System of Maryland for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. This was the eighteenth consecutive year (1989 through 2006) the State Retirement and Pension System of Maryland has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

This annual report reflects the dedicated efforts of the System's staff under the steady direction of the Board of Trustees. We extend our sincere gratitude to each member of the Board, the System's staff, the Board's advisors and the many people who worked so hard to make fiscal year 2007 a success.



R. Dean Kenderdine
Executive Director
Secretary to the Board

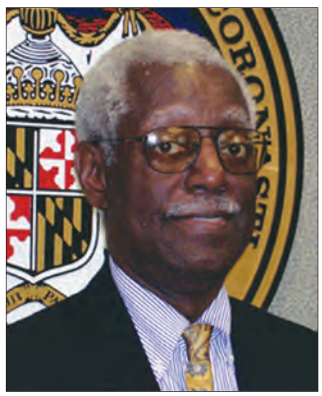
Vincent J. Marsiglia, CPA
Chief Financial Officer

BOARD OF TRUSTEES

NANCY K. KOPP, *Chairman*
State Treasurer
Ex Officio since February 14, 2002
Member, Investment Committee
Member, Administrative Committee
Member, Audit Committee
Member, Corporate Governance Subcommittee
Member, Real Estate Subcommittee

PETER FRANCHOT *Vice Chairman*
State Comptroller
Ex Officio since January 22, 2007
Member, Investment Committee
Member, Corporate Governance Subcommittee
Member, Real Estate Subcommittee

WILLIAM D. BROWN
August 1, 2005 – July 31, 2009
Vice Chair, Investment Committee
Member, Corporate Governance Subcommittee



JOHN W. DOUGLASS
August 1, 2007 – July 31, 2011
Member, Administrative Committee
Vice Chairman, Audit Committee

ELOISE FOSTER
Ex Officio since January 17, 2007
Member, Administrative Committee
Member, Investment Committee

JAMES M. HARKINS
July 1, 2006 - June 30, 2010
Chairman, Administative Committee

SHEILA HILL
August 1, 2005 – July 31, 2009
Member, Administrative Committee
Member, Investment Committee
Chairman, Corporate Governance Subcommittee

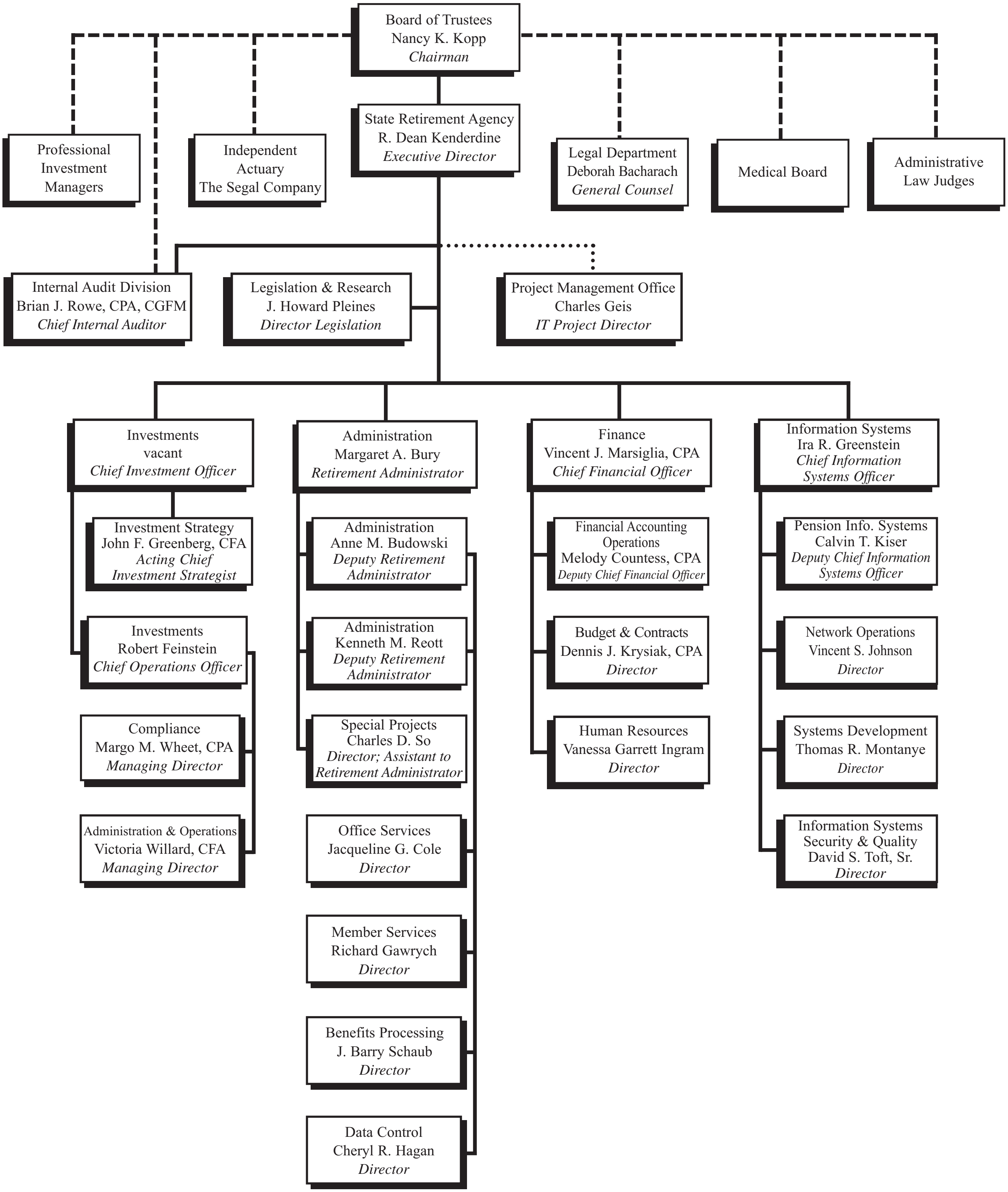
F. PATRICK HUGHES
July 1, 2005 - June 30, 2009
Chairman, Audit Committee
Member, Investment Committee
Member, Real Estate Subcommittee

BOARD OF TRUSTEES

ADVISORS TO THE INVESTMENT COMMITTEE

ORGANIZATIONAL CHART

(November, 2007)



*Additional information regarding investment professionals who provide services to the System can be found on pages 11, 52, and 61.

PROFESSIONAL SERVICES

Asset & Income Verification Services
Financial Control Systems, Inc.
Chadds Ford, Pennsylvania

Global Custodial Bank & Security Lending
State Street Bank and Trust Company
Boston, Massachusetts

Hearing Officers
Office of Administrative Hearings
Baltimore, Maryland

Independent Actuary
The Segal Company
Atlanta, Georgia

Independent Auditor
Abrams, Foster, Nole & Williams, P.A.
Baltimore, Maryland

Independent Investment Consultants
Altius Associates Limited
Richmond, Virginia

Ennis Knupp & Associates
Chicago, Illinois

Pension Consulting Alliance
Encino, California

Medical Board
John J. Fahey, M.D.
Norman Freeman, Jr. M.D.
Arthur Hildreth, M.D.
Bruce Z. Kohrn, M.D.
William B. Russell, M.D.
Alfred Wiedmann, M.D.

Operational Banking Services
M & T Bank
Baltimore, Maryland

The Harbor Bank of Maryland
Baltimore, Maryland

System Development
Saber Software Corp.
Portland, Oregon

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State Retirement and Pension System of Maryland

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Financial Section

Abrams, Foster, Nole & Williams, P.A.
Certified Public Accountants

2 Hamill Road, Suite 272 N. Quadrangle
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(410) 433-6830 / Fax (410) 433-6871

Member: American Institute of Certified Public Accountants
and Maryland Association of Certified Public Accountants

INDEPENDENT PUBLIC ACCOUNTANTS' REPORT

Board of Trustees
State Retirement and
Pension System of Maryland

We have audited the accompanying basic financial statements of the State Retirement and Pension System of Maryland, which is a pension trust fund of the State of Maryland, as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State Retirement and Pension System of Maryland as of June 30, 2007 and 2006, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying required supplementary information and other supplementary information, as listed in the table of contents, are presented to provide supplementary information required by accounting standards generally accepted in the United States of America or for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abrams, Foster, Nole + Williams, P.A.

Certified Public Accountants

October 19, 2007
Baltimore, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS

To help facilitate a better understanding of the State Retirement and Pension System of Maryland's (the "System") financial condition as of June 30, 2007, the results of its operations for the fiscal year then ended and the fiscal policies that govern its significant business operations, management has prepared this narrative analysis. This narrative is intended to supplement the System's audited financial statements and, as such should be read in conjunction with these statements, which are presented beginning on page 20.

OVERVIEW OF THE FINANCIAL STATEMENTS

As required by generally accepted accounting principles, the System's basic financial statements comprise the comparative Statements of Plan Net Assets and Statements of Changes in Plan Net Assets, along with the related note disclosures. In addition, the System's financial statements include certain required supplementary information (e.g., schedules of funding progress, and employer contributions) as well as other supplementary schedules considered relevant to the financial statement user (e.g., schedules of fund balances, administrative and investment expenses, plan net assets and related changes by system). To better understand the relevance of the information presented in the System's financial statements and related notes and supplementary information, it is helpful to first consider what purpose each component is intended to serve.

The Statements of Plan Net Assets present a comparative, summary-level snapshot, as of a specific point in time (i.e., June 30th – the last day of the System's fiscal year), of the market value of the net assets available to pay future pension benefits to retirees and beneficiaries. To assist the reader in understanding the composition of the System's accumulated net assets the most significant components (e.g., cash and cash-equivalent securities, investments) are separately disclosed. In this regard, cash and cash equivalents represent that portion of the System's assets that, as of the end of the fiscal year, reside in the form of actual cash or short-term, highly liquid, investment securities. This amount gives an indication of the System's liquidity at fiscal year end. Conversely, the amounts shown as investments represent those funds invested in longer-term securities (e.g., stocks, bonds, real estate) held for the purpose of generating investment income. The sum of these assets, reduced by any liabilities owed by the System at fiscal year-end, represents the net assets held in trust to pay pension benefits.

By contrast, the Statements of Changes in Plan Net Assets are intended to show, on a comparative basis, the major categories of income earned (additions to plan net assets) and expenses incurred (deductions from plan net assets) by the System during the previous fiscal year. As such, the System's net income or loss accounts for the entire change in the net assets held in trust to pay pension benefits during the fiscal year as a result of System operations. As with the System's assets and liabilities, significant categories of income and expense, as reported on the Statements of Changes in Plan Net Assets, are separately disclosed to help clarify the major sources and uses of System resources.

Finally, the note disclosures are provided as an integral component of the financial statements to help explain in narrative form some of the more complex or less obvious elements of the statements. Further, the notes to the financial statements provide additional information (e.g., significant accounting policies, varying types of investment risk) that is essential for a comprehensive understanding of the System's financial condition and the results of its operations.

Beyond the basic financial statements, the System provides certain required schedules and related note disclosures that collectively demonstrate the System's annual progress toward funding its actuarial accrued liability (i.e., Schedule of Funding Progress) and discloses a ten-year history of required employer contributions (i.e., Schedule of Contributions from Employers and Other Contributing Entity). The importance of these schedules is best explained by reference to the previously discussed basic financial statements.

The Schedule of Funding Progress, while similar in scope to the Statements of Plan Net Assets in that it is primarily focused on reporting on the accumulation of assets, differs from such statements both in its method for valuing such assets and in its approach to explaining their relevance to the liability they are being accumulated to satisfy. In this regard, the Schedule of Funding Progress first takes a long-term, actuarial view toward valuing the System's investment portfolio, as opposed to the market value approach reflected on the Statements of Plan Net Assets. Specifically, the System's assets are valued (for funding purposes) using a methodology that distributes investment gains and losses over a five-year period in order to minimize the effects of annual market volatility on employer contribution rates. The schedule then discloses the total actuarial accrued liability as projected to reflect the estimated effects of actuarial assumptions about future membership, service credit and covered payroll. Thus computed, the actuarial value of assets and the actuarial accrued liability are compared to disclose both the changes in the amount of unfunded actuarial liability, over a ten-year period, and the System's progress toward accumulating the necessary assets. This final piece, progress toward funding the actuarial accrued liability, is measured on the schedule in two significant ways. First is the funded ratio, which measures the System's ability to pay all projected benefits as they become due. Second is the unfunded liability, as a percentage of covered payroll, which measures the participating employers' capacity to pay all contributions required to fund the actuarial liability.

The Schedule of Contributions from Employers and Other Contributing Entity, much like the Schedule of Funding Progress, shares common characteristics with data disclosed in the basic financial statements. In this regard, both the Statements of Changes in Plan Net Assets and the Schedule of Contributions from Employers and Other Contributing Entity disclose the amount of contributions received from participating employers. However, the Schedule of Contributions from Employers and Other Contributing Entity differs from the Statements of Changes in Plan Net Assets in that the schedule's only focus is to disclose the contributions required to be made in accordance with the System's funding policy and the percentage of the required contributions actually made during the fiscal years presented.

The notes to the required supplementary information provide background information and explanatory detail to aid in understanding the required supplementary schedules. Finally, the other supplementary schedules, presented immediately after the required supplementary information, summarize the changes in fund balances, disclose major categories of operating and investment expenses and provide combining, plan-level detail related to asset, liability, income and expense amounts summarized in the basic financial statements.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The System's overall funding objective is to accumulate sufficient assets over time to meet its long-term benefit obligations as they become due. Accordingly, collecting employer and member contributions as well as earning an adequate long-term rate of return on its investments are essential components of the System's plan for accumulating the funds needed to finance future retirement benefits. In this regard, fiscal year 2007 showed continued positive returns for both the financial markets and the economy as a whole.

Fiscal Year 2007 compared to 2006

Net assets available for benefits and expenses at the end of fiscal year 2007 was $39.4 billion versus $34.4 billion at the end of fiscal year 2006, which represents a 14.8% overall increase. The overall increase is primarily attributable to a 15% increase in the fair value of managed assets and a decrease in investment commitment payables at the end of the year.

The schedule below indicates an increase of 15% in the managed assets of the System, which experienced strong returns during fiscal year 2007 in most asset classes. Domestic corporate obligations, mortgages & mortgage related securities along with U.S. government obligations experienced notable shifts in these asset classes due to the investment strategy of the external investment managers. Alternative investments' strong performance along with additional investments during fiscal year 2007 drove the increase in this asset class. Please refer to the Investment Section for additional information on our investment activities in 2007.

A schedule of the System's investments and changes (by type) from fiscal year 2006 to 2007 is as follows (*expressed in millions*):

	June 30,		Change	
	2007	**2006**	**Amount**	**%**
Cash & cash equivalents	$ 1,530.4	$ 1,417.8	$ 112.6	7.9%
U.S. Government obligations	1,302.4	1,666.6	(364.2)	-21.9%
Domestic corporate obligations	8,426.1	6,721.9	1,704.2	25.4%
International obligations	181.7	190.4	(8.7)	-4.6%
Domestic stocks	16,921.5	15,013.9	1,907.6	12.7%
International stocks	8,114.5	7,020.2	1,094.3	15.6%
Mortgages & mortgage related securities	2,752.7	2,143.9	608.8	28.4%
Real estate	893.8	836.4	57.4	6.9%
Alternative investments	476.6	287.3	189.3	65.9%
Total managed investments	40,599.7	35,298.4	5,301.3	15.0%
Collateral for loaned securities	1,897.3	2,148.7	(251.4)	-11.7%
Total investments and cash & cash equivalents	42,497.0	37,447.1	5,049.9	13.5%
Receivables	712.9	713.6	(0.7)	-0.1%
Total assets	43,209.9	38,160.7	5,049.2	13.2%
Liabilities	3,765.1	3,789.9	(24.8)	-0.7%
Total net assets, end of year	$39,444.8	$34,370.8	$5,074.0	14.8%

As depicted in the schedule below, the 70.1% increase in plan additions during fiscal year 2007 is primarily driven by an increase in member contributions and net investment income. Member contributions collected by the System increased significantly during fiscal year 2007 as a direct result of the Employees' and Teachers' pension plan enhancement. Additionally, the system experienced an investment return of 17.6%, an increase from the previous year that contributed to an 83.7% increase in net investment income. The fund, as expected, continues to pay out more in benefits than it collects in contributions and that, coupled with an increase of $136.4 million in benefits paid to retirees, also partly due to the Employees' and Teachers' pension plan enhancement, negated a portion of the investment gain and increase in net assets experienced by the System in fiscal year 2007.

A schedule of the System's additions to and deductions from plan net assets and related changes (by major category) from fiscal year 2006 to 2007 is as follows (*expressed in millions*):

	June 30,		Change	
	2007	**2006**	**Amount**	**%**
Employer contributions	$ 358.4	$ 285.3	$ 73.1	25.6%
Member contributions	319.3	215.1	104.2	48.4%
Other & contribution interest	475.3	435.6	39.7	9.1%
Net investment income	5,924.1	3,225.6	2,698.5	83.7%
Total additions	7,077.1	4,161.6	2,915.5	70.1%
Benefit payments	1,965.9	1,829.5	136.4	7.5%
Refunds	16.0	16.4	(0.4)	-2.4%
Administrative expenses	21.3	18.6	2.7	14.5%
Total deductions	2,003.2	1,864.5	138.7	7.4%
Net increase (decrease) in plan net assets	$5,073.9	$2,297.1	$2,776.8	120.9%

Fiscal Year 2006 compared to 2005

Cash and cash equivalents increased by 51.8% primarily due to the reallocation of available cash by external investment managers. International stocks increased as a result of an asset allocation change from domestic to global securities. The shift in international obligations and increase in mortgages and mortgage related securities is primarily due to a shift in the investment strategy of the external investment managers. The Alternative investments' strong performance along with additional investments during fiscal year 2006 drove the increase in this asset class.

A schedule of the System's investments and changes (by type) from fiscal year 2005 to 2006 is as follows (*expressed in millions*):

	June 30,		Change	
	2006	**2005**	**Amount**	**%**
Cash & cash equivalents	$ 1,417.8	$ 934.0	$ 483.8	51.8%
U.S. Government obligations	1,666.6	1,761.4	(94.8)	-5.4%
Domestic corporate obligations	6,721.9	5,989.6	732.3	12.2%
International obligations	190.4	310.9	(120.5)	-38.8%
Domestic stocks	15,013.9	16,303.3	(1,289.4)	-7.9%
International stocks	7,020.2	4,982.9	2,037.3	40.9%
Mortgages & mortgage related securities	2,143.9	1,746.8	397.1	22.7%
Real estate	836.4	751.7	84.7	11.3%
Alternative investments	287.3	242.5	44.8	18.5%
Total managed investments	35,298.4	33,023.1	2,275.3	6.9%
Collateral for loaned securities	2,148.7	2,485.4	(336.7)	-13.5%
Total investments and cash & cash equivalents	37,447.1	35,508.5	1,938.6	5.5%
Receivables	713.6	383.0	330.6	86.3%
Total assets	38,160.7	35,891.5	2,269.2	6.3%
Liabilities	3,789.9	3,817.8	(27.9)	-0.7%
Total net assets	$34,370.8	$32,073.7	$2,297.1	7.2%

Contributions collected by the System increased modestly during fiscal year 2006. The system experienced a positive investment return of 10.4%, an increase from fiscal year 2005. The fund, as expected, continued to pay out more in benefits than it collected in contributions and that, coupled with an increase of $132 million in benefits paid to retirees, negated a portion of the investment gain enjoyed by the System in fiscal year 2006.

A schedule of the System's additions to and deductions from plan net assets and related changes (by major category) from fiscal year 2005 to 2006 is as follows (*expressed in millions*):

	June 30,		Change	
	2006	**2005**	**Amount**	**%**
Employer contributions	$ 285.3	$ 239.8	$ 45.5	19.0%
Member contributions	215.1	209.0	6.1	2.9%
Other & contribution interest	435.6	430.7	4.9	1.1%
Net investment income	3,225.6	2,766.4	459.2	16.6%
Total additions	4,161.6	3,645.9	515.7	14.1%
Benefit payments	1,829.5	1,697.4	132.1	7.8%
Refunds	16.4	19.1	(2.7)	-14.1%
Administrative expenses	18.6	22.4	(3.8)	-17.0%
Total deductions	1,864.5	1,738.9	125.6	7.2%
Net increase (decrease) in plan net assets	$2,297.1	$1,907.0	$390.1	20.5%

ANALYSIS OF FUNDED STATUS

The unfunded actuarial liability is being amortized in distinct layers. The unfunded actuarial accrued liability which existed as of the June 30, 2000 actuarial valuation is being amortized over a 40-year period (as provided by law) from July 1, 1980. Also as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, will be amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. The most recent available valuation showed the funded status of the System at June 30, 2007 decreased to 76.8% from 82.8% at June 30, 2006. The primary reason for the decrease is the result of a System experience study and a Board adopted recommendation by our Actuary to change the System's actuarial method from the Aggregate Entry Age normal method to the Individual Entry Age Normal method. The Board also adopted a recommendation by the Actuary to change the System's actuarial assumptions.

In analyzing the System's overall funded status, it is important to remember that a retirement system's funding plan is based on a long time horizon, where fluctuations in the market are expected. The more critical factor is that the System be able to meet the current actuarial assumed rate of return of 7.75%. Funding progress for the pension plan is presented in the Required Supplementary Information Schedule of Funding Progress. Additional information on the plan's funding progress is also presented in the Actuarial Section of this CAFR.

REQUESTS FOR INFORMATION

Members of the System's Board of Trustees and senior management are fiduciaries of the pension trust fund and, as such, are charged with the responsibility of ensuring that the System's assets are used exclusively for the benefit of plan participants and their beneficiaries. This financial report is designed to provide an overview of the System's finances and to demonstrate accountability for the resources entrusted to the System for the benefit of all of the System's stakeholders. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

State Retirement and Pension System of Maryland
Attn: Melody Countess
120 E. Baltimore Street, Suite 1601
Baltimore, Maryland 21202-1600

STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

STATEMENTS OF PLAN NET ASSETS
As of June 30, 2007 and 2006
(Expressed in Thousands)

	2007	2006
Assets:		
Cash & cash equivalents (note 3)	$ 1,530,437	$ 1,417,792
Receivables:		
Contributions:		
Employers	8,614	5,988
Employers – long term (note 5)	56,868	59,415
Members	1,446	991
Accrued investment income	77,786	60,202
Investment sales proceeds	568,178	586,980
Total receivables	712,892	713,576
Investments, at fair value (notes 2 & 3):		
U.S. Government obligations	1,302,383	1,666,613
Domestic corporate obligations	8,426,134	6,721,939
International obligations	181,671	190,383
Domestic stocks	16,921,471	15,013,876
International stocks	8,114,497	7,020,180
Mortgages & mortgage related securities	2,752,682	2,143,898
Real estate	893,832	836,429
Alternative investments	476,589	287,348
Collateral for loaned securities	1,897,331	2,148,668
Total investments	40,966,590	36,029,334
Total assets	43,209,919	38,160,702
Liabilities:		
Accounts payable & accrued expenses (note 7)	38,628	65,742
Investment commitments payable	1,827,617	1,574,002
Obligation for collateral for loaned securities	1,897,331	2,148,668
Other liabilities	1,562	1,471
Total liabilities	3,765,138	3,789,883
Net assets held in trust for pension benefits	$39,444,781	$34,370,819
(A schedule of funding progress is presented on page 34)		

The accompanying notes are an integral part of these financial statements.

STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

STATEMENTS OF CHANGES IN PLAN NET ASSETS
for the Fiscal Years Ended June 30, 2007 and 2006
(Expressed in Thousands)

	2007	2006
Additions:		
Contributions (note 4):		
Employers	$ 358,417	$ 285,275
Members	319,274	215,077
Other	471,366	431,415
Contribution interest (note 5)	3,999	4,186
Total contributions	1,153,056	935,953
Investment income:		
Net appreciation in fair value of investments	5,408,216	2,804,854
Interest	344,052	247,352
Dividends	211,887	200,633
Real estate operating net income	30,806	33,496
Income before securities lending activity	5,994,961	3,286,335
Gross income from securities lending activity	104,087	84,122
Securities lending borrower rebates	(98,067)	(77,218)
Securities lending agent fees	(946)	(1,121)
Net income from securities lending activity	5,074	5,783
Total investment income	6,000,035	3,292,118
Investment expenses (note 2E)	(75,965)	(66,469)
Net investment income	5,924,070	3,225,649
Total additions	7,077,126	4,161,602
Deductions:		
Benefit payments	1,965,872	1,829,468
Refunds (note 6)	16,021	16,455
Administrative expenses (note 2E)	21,271	18,579
Total deductions	2,003,164	1,864,502
Net increase in plan assets	5,073,962	2,297,100
Net assets held in trust for pension benefits:		
Beginning of the fiscal year	34,370,819	32,073,719
End of the fiscal year	$39,444,781	$34,370,819

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL DESCRIPTION OF THE SYSTEM

A. Organization

The State Retirement Agency (the "Agency") is the administrator of the State Retirement and Pension System of Maryland (the "System"), a cost-sharing multiple-employer public employee retirement system. The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators and employees of participating governmental units. Responsibility for the System's administration and operation is vested in a 14-member Board of Trustees.

The State of Maryland is the statutory guarantor for the payment of all pensions, annuities, retirement allowances, refunds, reserves, and other benefits of the System. The Agency is legally authorized to use all assets accumulated for the payment of benefits to pay such obligations to any plan member or beneficiary as defined by the terms of the plan. Therefore, the System is accounted for as a single plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 25, *"Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."* Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies, and administrative budget. Accordingly, the System is included in the State's reporting entity and disclosed in its financial statements as a pension trust fund.

The System comprises the Teachers' Retirement and Pension Systems, Employees' Retirement and Pension Systems, State Police Retirement System, Judges' Retirement System, Law Enforcement Officers' Pension System and the Local Fire and Police System.

B. Covered Members

The Teachers' Retirement System was established on August 1, 1927 to provide retirement allowances and other benefits to teachers in the State. Effective January 1, 1980, the Teachers' Retirement System was closed to new members and the Teachers' Pension System was established. As a result, teachers hired after December 31, 1979 became members of the Teachers' Pension System as a condition of employment. On or after January 1, 2005, an individual who is a member of the Teachers' Retirement System may not transfer membership to the Teachers' Pension System.

On October 1, 1941, the Employees' Retirement System was established to provide retirement allowances and other benefits to State employees, elected and appointed officials and the employees of participating governmental units. Effective January 1, 1980, the Employees' Retirement System was essentially closed to new members and the Employees' Pension System was established. As a result, State employees (other than correctional officers) and employees of participating governmental units hired after December 31, 1979 became members of the Employees' Pension System as a condition of employment, while all State correctional officers and members of the Maryland General Assembly continue to be enrolled as members of the Employees' Retirement System. On or after January 1, 2005, an individual who is a member of the Employees' Retirement System may not transfer membership to the Employees' Pension System. Currently, 114 governmental units participate in the Employees' Systems.

The State Police Retirement System was established on July 1, 1949 to provide retirement allowances and other benefits to any police employee or cadet of the Maryland State Police.

The Judges' Retirement System was established on June 30, 1969 to provide retirement allowances and other benefits for State and local, appointed, or elected judges.

The Law Enforcement Officers' Pension System was established on July 2, 1990 to provide retirement allowances and other benefits for certain State and local law enforcement officers. This System includes both retirement plan and pension plan provisions which are applicable to separate portions of this System's membership. The retirement plan provisions are only applicable to those members who, on the date they elected to participate in this System, were members of the Employees' Retirement System. This System's pension plan provisions are applicable to all other participating law enforcement officers.

The Local Fire and Police System was established on July 1, 1989 to provide retirement allowances and other benefits for law enforcement officers and fire fighters employed by participating governmental units. This System includes both retirement plan and pension plan provisions which are applicable to separate portions of this System's membership. The retirement plan provisions are only applicable to those officers and fire fighters who, on the date they elected to participate in this System, were members of the Employees' Retirement System. This System's pension plan provisions are applicable to all other participating governmental unit law enforcement officers and fire fighters. As of January 1, 2005, this system was closed to future participants.

The following table presents a summary of membership by system as of June 30, 2007, with comparative 2006 totals:

		Retirees &	Active Plan Participants		
	Deferred Vested	**Beneficiaries**	**Vested**	**Non-vested**	**Total**
Teachers' Retirement & Pension Systems	22,719	52,039	70,150	33,427	103,577
Employees' Retirement & Pension Systems	29,107	53,039	66,144	22,555	88,699
Judges' Retirement System	13	335	297	-	297
State Police Retirement System	54	2,063	1,071	345	1,416
Local Fire and Police System	7	16	44	12	56
Law Enforcement Officers' Pension System	127	863	1,643	574	2,217
Totals as of June 30, 2007	52,027	108,355	139,349	56,913	196,262
Totals as of June 30, 2006	49,310	103,831	139,348	51,925	191,273

C. Summary of Significant Plan Provisions

All plan benefits are specified by the State Personnel and Pensions Article of the Annotated Code of Maryland. Retirement allowances are computed using both the highest three years' average final compensation (AFC) and the actual number of years of accumulated creditable service. Pension allowances are computed using both the highest three consecutive years' AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors. A brief summary of the retirement eligibility requirements of and the benefits available under, the various systems follows:

Service Retirement Allowances

A member of either the Teachers' or Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of eligibility service regardless of age. The annual retirement allowance equals 1/55 (1.8%) of the member's AFC multiplied by the number of years of accumulated creditable service.

A member of either the Teachers' or Employees' Pension System is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. Generally, the annual pension allowance for a member of either the Teachers' or Employees' Pension System equals 1.2% of the member's AFC, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4% of the member's AFC, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. However, the annual pension allowance for a member of the Employees' Pension System, who is employed by a participating governmental unit that does not provide the enhanced pension benefits, equals 0.8% of the member's AFC up to the social security integration level (SSIL), plus 1.5% of the member's AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the past 35 calendar years ending with the year the retiree separated from service. On April 25, 2006, new legislation was enacted with an effective date of July 1, 2006, that enhanced the pension benefits for active members, as of June 30, 2006, of the Pension System. According to the State

Employees" and Teachers' Retirement Enhancement Benefit Act of 2006, the annual service retirement allowance remains equal to 1.2% of average final compensation times service credit to June 30, 1998 and increases to 1.8% of average final compensation times service credit from July1, 1998 forward.

A member of the State Police Retirement System is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 22 years of eligibility service regardless of age. The annual retirement allowance equals 2.55% of the member's AFC multiplied by the number of years of accumulated creditable service and may not exceed 71.4% of the member's AFC.

A member of the Judges' Retirement System is eligible for full retirement benefits upon attaining age 60. The annual retirement allowance for a member with at least 16 years of accumulated creditable service equals 2/3 (66.7%) of the salary of an active judge holding a comparable position. The annual retirement allowance is prorated if the member retires with fewer than 16 years of accumulated creditable service.

A member of the Law Enforcement Officers' Pension System is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 25 years of eligibility service regardless of age. The annual retirement allowance for a member who is covered under the retirement plan provisions equals 2.3% of the member's AFC multiplied by the number of years of accumulated creditable service up to 30 years, plus 1.0% of the member's AFC multiplied by the number of years of accumulated creditable service in excess of 30 years. For members subject to the pension provisions, full service pension allowances equal 2.0% of AFC up to a maximum benefit of 60% (30 years of credit).

A member of the Local Fire and Police System who is covered under the retirement plan provisions is eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 25 years of eligibility service regardless of age. The annual retirement allowance equals 2.0% of the member's AFC multiplied by the number of years of accumulated creditable service up to 30 years, plus 1.0% of the member's AFC multiplied by the number of years of accumulated creditable service in excess of 30 years. A member who is covered under the pension plan provisions is eligible for full pension benefits upon the earlier of attaining age 62 or accumulating 25 years of eligibility service regardless of age. The annual pension allowance equals 1.0% of the member's AFC up to the SSIL, plus 1.5% of the member's AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service.

Vested Allowances

Any member (other than a judge) who terminates employment before attaining retirement age but after accumulating 5 years of eligibility service is eligible for a vested retirement allowance. Judges have no minimum service requirements prior to vesting. A member who terminates employment prior to attaining retirement age and before accumulating 5 years of eligibility service receives a refund of all member contributions and interest.

Early Service Retirement

A member of either the Teachers' or Employees' Retirement System may retire with reduced benefits after completing 25 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of eligibility service, whichever is less. The maximum reduction for a Teachers' or Employees' Retirement System member is 30 percent. A member of either the Teachers' or Employees' Pension System may retire with reduced benefits upon attaining age 55 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for a Teachers' or Employees' Pension System member is 42%. Members of the State Police, Judges', Law Enforcement Officers' and Local Fire and Police Systems are not eligible for early service benefits.

Disability and Death Benefits

Generally, a member covered under retirement plan provisions who is permanently disabled after 5 years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFC. A member covered under pension plan provisions who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. A member (other than a member of the Maryland General Assembly or a judge, both of which are ineligible for accidental disability benefits) who is permanently and totally disabled as the result of an accident occurring in the line of duty receives 2/3 (66.7%) of the member's AFC plus an annuity based on all member contributions and interest. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

Adjusted Retirement Allowances

Retirement and pension allowances are increased annually to provide for changes in the cost of living according to prescribed formulae. Such adjustments for retirees are based on the annual change in the consumer price index. Generally, for Teachers' and Employees' Pension System retirees, the pension allowance adjustments are limited to 3% of the preceding year's allowance. However, annual increases to pension allowances for Employees' Pension System retirees who were employed by a participating governmental unit that does not provide enhanced pension benefits are limited to 3% of the initial allowance. Retirement allowances for legislators and judges are recalculated when the salary of an active member holding a comparable position is increased.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The System's financial statements are prepared on the accrual basis of accounting. Accordingly, investment purchases and sales are recorded as of their respective trade dates and all contributions, benefits and refunds are recognized in the period when due. In accordance with GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting,"* the System has elected to apply all applicable GASB pronouncements and only Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989.

B. Investment Limitations

The State Personnel and Pensions Article of the Annotated Code of Maryland authorizes the System to invest plan assets in stocks, bonds, notes, certificates of indebtedness, mortgage notes, real estate, debentures or other obligations, subject to the terms, conditions, limitations and restrictions imposed by the Board of Trustees of the State Retirement and Pension System of Maryland. As such, no more than 25% of the assets invested in common stocks may be invested in non-dividend paying common stocks. In addition, no investment in any one organization may constitute more than 5% of the total assets of the System (valued at cost). The System did not exceed either of these investment limits

C. Portfolio Valuation Method

The System investments are reported at fair value. For fixed income securities, fair value is based on quoted market prices provided by independent pricing services. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages and mortgage related securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Fair value for real estate investments is based on estimated current values and independent appraisals. Fair value for alternative investments and mutual funds (other than those funds traded on a national or international exchange) is based on information provided by the applicable fund managers. Investment amounts presented in the Statements of Plan Net Assets represent the fair value of the respective portfolios as of the fiscal year-end. Similarly, investment income amounts reported in the Statements of Changes in Plan Net Assets represent the income or loss derived from such investments for the year then ended. Accordingly, significant market fluctuations could periodically occur subsequent to the financial statement valuation date, which are not reflected in either the fair value of investments or the related investment income presented in these financial statements.

D. Derivatives

The System may invest in derivatives as permitted by guidelines established by the Board of Trustees. Compliance with these guidelines is monitored by Agency staff. Pursuant to such authority, the System invests in foreign currency forward contracts, options, futures, swaps, collateralized mortgage obligations, mortgage related securities, interest-only and principal-only securities. No derivatives were purchased with borrowed funds.

Derivatives are generally used to hedge against foreign currency risk and changes in interest rates, improve yield and adjust the duration of the System's fixed income portfolio. These securities are subject to changes in value due to changes in interest rates or currency valuations. Additionally, mortgage related securities are subject to prepayment risk when interest rates are falling. Credit risk for derivatives results from the same considerations as other counterparty risk assumed by the System, which is the risk that the counterparty might be unable to meet its obligations.

The System enters into forward foreign currency exchange contracts for hedging purposes to minimize the short-term impact of foreign currency fluctuations on the asset positions of foreign investments. These foreign currency exchange contracts are reported at fair value based on published market prices and quotations from major investment firms. The System could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The System seeks to minimize risk from counterparties by establishing minimum credit quality standards.

E. Administrative and Investment Expenses

All of the System's administrative and investment expenses (e.g., salaries of Agency employees, investment advisory fees) are incurred centrally and charged to each individual retirement or pension system on the basis of its percentage ownership in the System's net assets. All of the System's administrative and investment expenses are funded from investment income. See page 39 for detailed Schedules of Administrative and Investment Expenses, respectively.

F. Federal Income Tax Status

During the fiscal years ended June 30, 2007 and 2006, the System qualified under Section 401(a) of the Internal Revenue Code and was exempt from federal income taxes under Section 501(a) of the Code.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

A. Legal Provisions

The Board of Trustees is authorized by Section 21-116(c), Annotated Code of Maryland, to establish and maintain the investment policy manual, which authorizes investing in all major sectors of the capital market in order to diversify and minimize total investment program risk. Such sectors include, but are not limited to the following:

- Common stock, preferred stock, convertible securities, warrants, and similar rights of U.S. and non-U.S. companies, wherever organized shares in investment funds and trusts may be purchased.
- Private Equity-Direct/Partnerships/Funds – The System currently has a 2% target and employs a consultant to advise them on selecting partnerships.
- Real Estate Investment Trusts (REITS) – The System employs an investment manager specializing in both Domestic and Global REITS.
- Commingled Real Estate Funds – May be open or close ended. Earnings are currently being distributed.
- Directly Owned Real Estate – Affords the System greater control over the portfolio composition; ability to evaluate property prior to acquisition; greater control over managers' compensation levels and fee structures; and greater assurance that the investment objectives of SRPS are the primary guiding force of manager activities rather than investment objectives suitable to multiple investors.
- Private Real Estate Funds – The System employs a consultant to advise them on fund selecting as well as the composition of the entire Real Estate program, which currently has a 5% target.
- Fixed income obligations of the U.S. government and its states and local subdivisions, non-U.S. governments and their states and local subdivisions, U.S. and non-U.S. companies, wherever organized, and supra-national organizations. Any limits are governed by the System's contract with each manager.
- Commingled funds offered by the Manager, or affiliates thereof, that invest in permissible investments.
- Futures and other Derivatives - The System may employ financial futures and other derivatives that are traded on a recognized exchange. Allowable instruments will include, but will not be limited to: fixed income, domestic and

international equity futures, and forward currency contracts. Futures and other derivatives may not be used to take asset allocation outside the target ranges or to leverage the portfolio.

The Systems' policy is to consider all major sectors of the capital market in order to diversify and minimize total investment program risk.

Investment Restrictions

The System may not invest more than 25% of total assets (at market value) committed by the System to common stocks in non-dividend-paying common stocks, since prohibited under State Personnel & Pensions' Article section 21-123 c.ii.

Unless the Board of Trustees grants prior authorization, the System may not:

- Invest more than 5% of the total assets of the System in any one company.
- Invest any funds of the System in any one company in excess of 5% of that company's total capital.
- Borrow money.
- Purchase securities on margin when the notional value of open positions exceeds the market value of the account.
- Effect short sales of equities, other than those executed by external managers or for the implementation of tactical asset allocation on a market sector.
- Pledge or hypothecate securities with the exception of fully collateralized security lending agreements and reverse repurchase agreements.
- Employ derivatives to reduce portfolio duration to less than that of cash equivalents or to increase duration to more than that available from owning long term U.S. Treasury Bonds.

The System is also authorized by its Board of Trustees to operate a securities lending program, and has contracted with its custodian bank to reinvest cash collateral received from the transfer of securities in any investment instrument authorized by the investment policy. The System's Board of Trustees has determined the collateralization percentages necessary for both foreign and domestic demand deposits. The Board of Trustees has established a policy to require collateral equal to 105% for international equity securities and 102% for all other securities, which is marked to market daily.

B. Cash and Cash Equivalents

The amount of the System's total cash and cash equivalents as of June 30, 2007 and June 30, 2006 was $1,530,437,378 and $1,417,791,562, respectively.

The System does not have any funds or deposits that are not covered by depository insurance, which are either uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the System's name. Nor does the System have any investments that are not registered in their name and are either held by the counterparty or the counterparty's trust department or agent, but not in the System's name.

C. Investments

The investment assets of the system are invested in short-term, fixed income, equity, and real estate securities. These investments are accounted for as the System and are allocated to Teachers' Retirement and Pension, Employees' Retire ment and Pension, Judges' Retirement, State Police Retirement, Law Enforcement Officers' Pension, and the Local Fire and Police Systems. All investments are governed by the prudent person rule described in Section 21-203 of the Anno tated Code of Maryland. The prudent person rule established a standard for all fiduciaries, to act as a prudent person would be expected to act, with discretion and intelligence, while investing for income and preservation of principal.

D. Interest Rate Risk

As of June 30, 2007, the System had the following fixed income investments listed by specific identifier with the exception of the Mutual Funds, which are based on their average maturity:

	Fair Value	Investment Maturities (in years)			
Investment Type:	**(in thousands)**	**Less than 1**	**1 thru 5**	**5+ thru 10**	**More than 10**
Asset backed securities	$ 353,686	$ 0	$ 52,113	$ 11,623	$ 289,950
Bond mutual funds	6,688,026	810,369	0	5,757,103	120,554
Collateralized mortgage obligations	658,972	22	777	373,406	284,767
Convertible bonds	767	0	0	0	767
Domestic corporate obligations	1,180,610	73,900	665,861	293,740	147,109
International obligations	62,170	15,647	17,135	10,470	18,918
Mortgage pass-throughs	2,093,709	1,001	7,359	2,150	2,083,199
Municipals	6,074	3,006	0	0	3,068
Options	2,619	165	2,454	0	0
Private Placement	34,908	4,037	8,420	17,346	5,105
Short term	1,386,901	1,386,901	0	0	0
Swaps	(-8,352)	(-5,724)	(-21,472)	(-3,896)	22,740
U.S. government agency	265,078	23,218	114,823	70,766	56,271
U.S. treasury bonds	363,347	0	0	0	363,347
U.S. treasury notes	661,559	32,072	319,646	309,841	0
U.S. treasury strips	12,399	0	0	0	12,399
Yankee bonds	279,216	10,402	117,732	52,325	98,757
Totals	$14,041,689	$ 2,355,016	$ 1,284,848	$ 6,894,874	$ 3,506,951

The portfolio is restricted to maintaining an effective duration of plus or minus one year of the benchmark. Market or interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. Derivative securities, variable rate investments with coupon multipliers greater than one, and securities with long terms to maturity are examples of investments whose fair values may be highly sensitive to interest rate changes. These securities are reported at fair value in the statement of plan net assets.

Futures, options, swaps and forward contracts are allowed to the extent that they are used in a manner that does not materially increase total portfolio volatility or relate to speculative activities. Unleveraged derivatives are permitted for the purpose of hedging investment risk, to replicate an investment that would otherwise be made directly in the cash market or to modify asset exposure in tactical portfolio shifts. Use of derivatives should not materially alter the characteristics, including the investment risk, of the Account. The Manager must at all times have, in place and use, procedures that subject derivative based strategies to rigorous scenario and volatility analysis. No single derivative based strategy should subject the account to greater variance than would be typical of the manager's physical portfolio strategy under a worst-case scenario.

Mortgage-backed securities that the Manager, with the Agency's approval, classifies as exhibiting unusually high interest rate sensitivity relative to U.S. Government agency mortgage pass-through issues shall not exceed 5% of the total Account. Examples of securities that would qualify as "highly interest rate sensitive" include IOs, POs and inverse floaters, of which the System held $11.4 million as of June 30, 2007.

At June 30, 2007, the System had $2.1 billion invested in mortgage pass-through securities issued by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. These investments are moderately sensitive to changes in interest rates because they are backed by mortgage loans in which the borrowers have the option of prepaying.

E. Credit Risk

The System's exposure to credit risk as of June 30, 2007 is expressed below (in thousands):

Rating	2007 Fair Value	Percentage Total Investments	2006 Fair Value	Percentage Total investments
AAA	$4,473,499	10.920%	$3,281,138	9.107%
AA	300,260	0.733%	142,493	0.395%
A	1,622,099	3.960%	1,217,336	3.379%
BAA	20,569	0.050%	48,029	0.133%
BBB	542,356	1.324%	277,566	0.770%
BB	175,318	0.428%	178,485	0.495%
B	119,259	0.291%	126,600	0.351%
CAA	12,795	0.031%	7,498	0.021%
CA	192	0.000%	331	0.001%
CCC	15,222	0.037%	985	0.003%
C	5	0.000%	0	0.000%
NR (a)	6,810,466	16.624%	5,561,037	15.435%

The current policy regarding credit risk requires each fixed income investment manager to maintain a minimum average credit quality of "A" for their total account. The above listed ratings are based on the most conservative rating when multiple ratings were offered. (a) NR represents securities not rated; primarily made up of swaps and commingled funds, which by nature do not have credit quality ratings.

F. Foreign Currency Risk

The System's exposure to foreign currency risk as of June 30, 2007 is as follows:

International Investment Securities - At Fair Value as of June 30, 2007
(U.S. Dollars in Thousands)

Currency	Equity	Fixed Income	Cash	Alternative Investments	Mutual Funds	Total
Australian Dollar	$ 116,699	$ (231)	$ 193	$	$	$ 116,661
Brazilian Real	16,239	4,139	107			20,485
Canadian Dollar	94,819	(48)	973			95,744
Danish Krone	39,031		123			39,154
Egyptian Pound		12,107				12,107
Euro Currency	1,343,700	2,718	5,061	50,916		1,402,395
Hong Kong Dollar	273,474		135			273,609
Indonesian Rupiah	3,406					3,406
Israeli Shekel	4,797		35			4,832
Japanese Yen	599,799	10,320	4,405			614,524
Malaysian Ringgit	5,690					5,690
Mexican Peso	15,804	143	29			15,976
New Taiwan Dollar	28,232		2,521			30,753
New Turkish Lira	31,864		285			32,149
New Zealand Dollar			307			307
Norwegian Krone	76,905		36			76,941
Polish Zloty		6,907	1			6,908
Pound Sterling	636,066	36,863	16,847	21,243		711,019
Singapore Dollar	83,911		279			84,190
South African Rand	36,578		5			36,583
South Korean Won	96,779		817			97,596
Swedish Krona	59,444		959			60,403
Swiss Franc	228,517		151			228,668
Not applicable					4,098,287	4,098,287
Other Currencies (2)			3			3
Total Holdings Subject to Foreign Currency Risk	$3,791,754	$72,918	$33,272	$72,159	$4,098,287	$8,068,390

The majority foreign currency-denominated investments are in non-U.S. stocks, which the System's current assets allocation policy has a target of 13% International and 10% Global.

Note: This schedule does not agree with the total International obligations and International equities as listed on the Statement of Plan Net Assets due to ADR's and International obligations valued in U. S. dollars but classified as International. Items considered Not applicable represents International Mutual Funds which are valued in U.S. dollars.

G. Security Lending Transactions

The System accounts for securities lending transactions in accordance with (GASB) Statement No. 28 *"Accounting and Financial Reporting for Securities Lending Transactions,"* which established standards of accounting and financial reporting for securities lending transactions.

The following table details the net income from securities lending for the period ending June 30, 2007 *(in thousands)*:

	2007	2006
Interest income	$ 104,087	$ 84,122
Less:		
Interest expense	98,067	77,218
Program fees	946	1,121
Expenses from securities lending	99,013	78,339
Net income from securities lending	$ 5,074	$ 5,783

The Board of Trustees has authorized the System to lend its securities to broker-dealers with a simultaneous agreement to return the collateral for the same securities in the future. The System's custodian, pursuant to a written agreement, is permitted to lend all long-term securities to authorized broker-dealers subject to the receipt of acceptable collateral. There have been no significant violations of the provisions of the agreement during the period of these financial statements. The System lends securities for collateral in the form of either cash or other securities. The types of securities on loan at June 30, 2007 are long-term U.S. government and agency obligations, domestic and international equities as well as domestic and international obligations. At the initiation of a loan, borrowers are required to provide collateral amounts of 102% (domestic equities and bonds) and 105% (international equities) of the fair value of the securities lent. In the event the collateral fair value falls below the respective collateral percentages, the borrower is required to provide additional collateral by the end of the next business day. The contractual agreement with the System's custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the System income distributions by the securities' issuers while the securities are on loan.

Although the average term of the System's security loans is one week, each loan can be terminated at will by either the System or the borrower. Cash collateral is invested in one of the lending agent's short-term investment pools, which at June 30, 2007 had a weighted average maturity of 48 days and an average expected maturity of 168 days. The system cannot pledge or sell collateral securities received unless and until a borrower defaults. Investments made with cash received as collateral and the corresponding liabilities are reported in the Statement of Plan Net Assets. Because the relationship between the maturities of the investment pools and the System's security loans is affected by the maturities of the loans made by other entities that use the agent's pools, the System cannot match maturities. At year-end, the System had no credit risk exposure to borrowers because the amount the System owed the borrowers exceeded the amount the borrowers owed the System.

The following table presents the fair values of the underlying securities, and the value of the collateral pledged at June 30, 2007 *(in thousands)*:

Securities Lent	**Fair Value Loaned Securities**	**Collateral Fair Value**	**Percent Collateralized**
Lent for cash collateral:			
U.S. government and agency	$ 413,137	$ 420,116	102%
Domestic fixed income	110,801	113,900	103%
International fixed income	23,411	23,766	102%
Domestic equity	708,464	728,277	103%
International equity	586,588	611,272	104%
Lent for noncash collateral:			
U.S. government and agency	26,827	27,362	102%
Domestic equity	127,808	131,156	103%
International equity	35,407	37,281	105%
Total securities lent	$2,032,443	$2,093,130	103%

The securities collateral value is based on the System's pro rata share of the value of the securities collateral maintained in a pool at State Street Bank for all lending clients participating in the lending program. Collateral value listed above includes all collateral for securities on loan; whereas, collateral for loaned securities disclosed on the Statements of Plan Net Assets includes only cash collateral, per GASB Statement No. 28.

H. Commission Recapture Program

In October 2006 the Board of Trustees removed the System's authority to participate in a commission recapture program. The program allowed the system to recapture a portion of the commissions paid to broker/dealers with which the System had entered into an agreement. Earnings credited to commission recapture income for the fiscal years ended June 30, 2007 and June 30, 2006 were $84 and $92 (expressed in thousands) respectively.

I. Reclassification

Certain amounts in the prior year's financial statements have been reclassified to conform to the presentation in the current year's financial statements.

4. CONTRIBUTIONS

The State Personnel and Pensions Article requires both active members and their respective employers to make contributions to the System. Rates for required contributions by active members are established by law. Members of the Teachers' and Employees' Retirement Systems are required to contribute 7% or 5% of earnable compensation depending upon the retirement option selected. Members of the State Police and Judges' Retirement Systems are required to contribute 8% and 6% of earnable compensation, respectively. During fiscal year 2007, members of the Teachers' and Employees' Pension System, Alternate Contributory Pension Selection (ACPS), were required to contribute 3% of earnable compensation. Members of the Employees' Pension System who are employed by a participating governmental unit that elected to remain in the Contributory Pension System are required to contribute 2% of earnable compensation. The members of the Employees' Pension System who are employed by participating governmental units who elected to remain in the Non-Contributory Pension System are only required to contribute 5% of earnable compensation in excess of the social security taxable wage base.

Contribution rates for employer and other "nonemployer" contributing entities are established by annual actuarial valuations using the entry age normal cost method with projection and other actuarial assumptions adopted by the Board of Trustees. These contribution rates have been established as the rates necessary to fully fund normal costs and amortize the unfunded actuarial accrued liability.

The unfunded actuarial liability is being amortized in distinct layers. The unfunded actuarial accrued liability which existed as of the June 30, 2000 actuarial valuation is being amortized over a 40-year period (as provided by law) from July 1, 1980. Also as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, will be amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose.

Effective July 1, 2002, the law provides that the contribution rates may be more or less than the actuarially determined rates as described above for the Employees' Retirement and Pension Systems and the Teachers' Retirement and Pension Systems. When the funding ratio for each of the combined Systems is at least 90% but not more than 110 %, the contribution rate will be the rate certified by the Board of Trustees for the previous fiscal year, adjusted to reflect legislative changes that result in changes to the normal cost. If the funding ratio is below 90%, the contribution rate will be the sum of the contribution rate for the previous fiscal year and 20% of the difference between the full funding rate for the current fiscal year and the contribution rate for the previous fiscal year. If the funding ratio is above 110%, the contribution rate will be the difference between the contribution rate for the previous fiscal year and 20% of the difference between the contribution rate for the previous fiscal year and the full funding rate for the current fiscal year.

The State of Maryland (which is also a non-employer contributor to the Teachers' Retirement and Pension Systems and the Judges' Retirement System), the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund, and 114 participating governmental units make all of the employer and other (non-employer) contributions to the System.

5. LONG-TERM CONTRIBUTIONS RECEIVABLE

In addition to actuarially determined contributions, certain withdrawn employers also make annual installment payments, including interest at the actuarially assumed rate of return in effect at the time of withdrawal (7% or 7.5% per year), for liabilities associated with employees that have elected to stay in the System when their employer elected to withdraw. As of June 30, 2007 and 2006, the outstanding balances were $56,868 and $59,415 (expressed in thousands), respectively. These payments are due over various time periods, based on the date of the employer's withdrawal, and all are scheduled to culminate with their final payment in fiscal year 2020.

6. REFUNDS

Member contributions plus interest may be refunded to a member who withdraws from the System, or to the designated beneficiary following a member's death. Employer contributions may also be refunded with interest to any participating governmental unit electing to withdraw from the System. For the fiscal years ended June 30, 2007 and 2006, refunds to members and withdrawing employers were as follows *(expressed in thousands)*:

	2007	2006
Member refunds	$ 16,021	$ 16,455
Employer refunds	0	0
Total refunds	$ 16,021	$ 16,455

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

For the fiscal years ended June 30, 2007 and 2006, accounts payable and accrued expenses consisted of the following components (*expressed in thousands*):

	2007	2006
Administrative expenses	$ 3,519	$ 6,892
Investment management fees	15,680	28,636
Tax and other withholdings	19,429	30,214
Total	$ 38,628	$ 65,742

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Assets a	Actuarial Accrued Liability (AAL) b	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll c	UAAL as a Percentage of Covered Payroll [(b - a) / c]
1998	$24,850,355	$27,416,935	$2,566,580	90.64%	$5,900,456	43%
1999 *	27,646,579	28,475,380	828,801	97.09	6,312,417	13
2000	30,649,380	30,279,866	(369,514)	101.22	6,725,870	(5)
2001	31,914,778	32,469,942	555,164	98.29	7,255,036	8
2002	32,323,263	34,131,284	1,808,021	94.70	7,867,794	23
2003	32,631,465	34,974,601	2,343,136	93.30	8,134,419	29
2004	33,484,657	36,325,704	2,841,047	92.18	8,069,481	35
2005	34,519,500	39,133,450	4,613,950	88.21	8,603,761	54
2006	35,795,025	43,243,492	7,448,467	82.78	9,287,576	80
2007**	37,886,936	49,306,375	11,419,439	76.84	9,971,012	115

* The 1999 actuarial accrued liability does not include an additional $153 million liability due to municipal employers voluntarily electing enhanced benefits during the period July 1, 1999 to December 31, 1999.

** Beginning July 1, 2006, the system changed its funding method from the Aggregate Entry Age Normal method to the Individual Entry Age Normal method.

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITY

(Expressed in Thousands)

Fiscal Year Ended June 30,	Annual Required Contributions	Percentage Contributed
1998	$735,788	100%
1999	693,353	100
2000	682,422	100
2001	634,309	100
2002	574,019	100
2003	654,578	92
2004	710,632	89
2005	805,564	83
2006	874,079	82
2007	1,025,972	81

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

1. DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS

The Schedule of Funding Progress summarizes the actuarial value of the System's assets and actuarial accrued liability as of June 30, 2007 and each of the nine preceding fiscal years. The data presented in the schedule were obtained from the System's independent actuary's annual valuation report for each year presented.

The schedule is presented to provide a consistent basis for measuring the System's annual progress toward funding its actuarial accrued liability in accordance with its actuarial funding method. The primary measure of funding progress is the System's funded ratio (i.e., actuarial value of assets expressed as a percentage of the actuarial accrued liability). An increase in the funded ratio indicates improvement in the System's ability to pay all projected benefits as they become due. The System is fully funded if the funded ratio is greater than or equal to 100 percent. During the year ended June 30, 2007, the System's funded ratio decreased from 82.78% to 76.84%. The primary cause for the decrease in the actuarial funding ratio was due to a change in funding method from the Aggregate Entry Age Normal to the Individual Entry Age Normal method.

The Schedule of Funding Progress also discloses the relationship between the System's covered payroll (i.e., all elements included in compensation paid to active members on which contributions are based) and the unfunded actuarial accrued liability. This relationship, expressed as a ratio, is a measure of the significance of the unfunded actuarial accrued liability relative to the capacity to pay all contributions required to fund the liability. During the year ended June 30, 2007, the System's ratio of the unfunded actuarial accrued liability to its covered payroll went from 80% to 115%.

2. ACTUARIAL METHODS AND ASSUMPTIONS

A. Funding Method

The System uses the Individual Entry Age Normal actuarial funding method with projection to determine the actuarial accrued liability on which future employer contribution rates will be based. Under this funding method, a total contribution rate is determined which consists of two elements, the normal cost rate and the unfunded actuarial liability rate (see note 4).

The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 13-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate annual layers over a 25-year period. Each separate amortized layer has a closed amortization period. The equivalent single amortization period is 28 years.

B. Asset Valuation Method

Assets are valued for funding purposes by recognizing investment gains and losses over a five-year period. Each year's investment gain or loss is amortized on a straight-line basis over five years. The final actuarial value is limited to not more than 120% nor less than 80% of the market value of assets.

C. Actuarial Assumptions

The assumptions used for the actuarial valuation were recommended by the System's independent actuary, based upon periodic analyses of the System's experience, and adopted by the Board of Trustees. Differences between assumed and actuarial experience (i.e., actuarial gains and losses) are part of the unfunded actuarial liability. The following significant assumptions were used in the actuarial valuation as of June 30, 2007:

- a rate of return on investments of 7.75% compounded annually (adopted June 30, 2003);

- projected salary increases of 3.5% compounded annually, attributable to inflation (adopted June 30, 2007);
- additional projected salary increases ranging from 0.00% to 8.50% per year attributable to seniority and merit (adopted June 30, 2007);
- post-retirement benefit increases ranging from 3% to 4% per year depending on the system (adopted June 30, 2003);
- rates of mortality, termination of service, disablement and retirement based on actual experience during the period from June 30, 2003 through June 30, 2006 (adopted June 30, 2007); and
- an increase in the aggregate active member payroll of 3.5% annually (adopted June 30, 2007).

OTHER SUPPLEMENTARY INFORMATION

FUND BALANCE ACCOUNTS

As provided by law, all System assets must be credited, according to the purpose for which they are held, to either the Annuity Savings Fund, the Accumulation Fund or the Expense Fund. These funds are classified as accounts for financial reporting purposes and are further explained as follows:

A. Annuity Savings Fund

Members' contributions together with interest thereon, at statutory interest rates, are credited to the Annuity Savings Fund. Upon retirement, members' accumulated contributions and interest are transferred from the Annuity Savings Fund to the Accumulation Fund.

B. Accumulation Fund

Contributions made by employers, other contributions and investment income are credited to the Accumulation Fund. All retirement, disability and death benefits are paid from this Fund.

C. Expense Fund

All expenses for the administration and operation of the System are recorded in the Expense Fund. During the year, funds are transferred from the Accumulation Fund to the Expense Fund to cover expenses incurred.

STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

SCHEDULE OF FUND BALANCES

for the Fiscal Year Ended June 30, 2007 (with Comparative 2006 Totals)

(Expressed in Thousands)

	Annuity Savings Fund	Accumulation Fund	Expense Fund	Totals 2007	Totals 2006
Fund Balances, Beginning of Year	$2,250,549	$32,120,270	$ -	$34,370,819	$32,073,719
Additions					
Net investment income	-	6,000,035	(75,965)	5,924,070	3,225,649
Contributions (note 4):					
Employers	-	358,417	-	358,417	285,275
Members	319,274	-	-	319,274	215,077
Other	-	471,366	-	471,366	431,415
Contribution interest	-	3,999	-	3,999	4,186
Deductions					
Benefit payments	-	(1,965,872)	-	(1,965,872)	(1,829,468)
Refunds (note 6)	(16,021)	-	-	(16,021)	(16,455)
Administrative expenses (note 2E)	-	-	(21,271)	(21,271)	(18,579)
Transfers					
From the Accumulation Fund to the Annuity Savings Fund for interest credited to members' accounts	101,515	(101,515)	-	-	-
To the Accumulation Fund from the Annuity Savings Fund for contributions of retiring members	(181,685)	181,685	-	-	-
From the Accumulation Fund to the Expense Fund for administrative and investment expenses	-	(97,236)	97,236	-	-
Net changes in fund balances	223,083	4,850,879	-	5,073,962	2,297,100
Fund Balances, End of Year	$2,473,632	$36,971,149	$ -	$39,444,781	$34,370,819

STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

SCHEDULE OF ADMINISTRATIVE EXPENSES

for the Fiscal Years Ended June 30, 2007 and 2006

(Expressed in Thousands)

	2007	2006
Personnel services:		
Staff salaries	$ 9,896	$ 9,613
Fringe benefits	3,310	3,048
Total personnel services	13,206	12,661
Professional and contractual services		
Actuarial	(105)	275
Legal and financial	419	405
Consulting services	173	21
Data processing	3,526	964
Other contractual services	517	386
Total professional and contractual services	4,530	2,051
Miscellaneous		
Communications	745	1,309
Rent	1,632	1,591
Equipment and supplies	357	336
Other	801	631
Total miscellaneous	3,535	3,867
Total Administrative Expenses	$21,271	$18,579

SCHEDULE OF INVESTMENT EXPENSES

for the Fiscal Years Ended June 30, 2007 and 2006

(Expressed in Thousands)

	2007	2006
Investment advisors:		
Equity managers	$48,567	$42,410
Fixed managers	10,208	9,975
Real estate managers	13,797	10,811
Total investment advisory fees	72,572	63,196
Other investment service fees		
Master custody	1,012	1,042
Income verification services	301	295
Investment consultant	1,500	1,503
Other investment expenses	580	433
Total other investment service fees	3,393	3,273
Total Investment Expenses	$75,965	$66,469

STATE RETIREMENT AND

SCHEDULE OF PLAN NET

as of June 30, 2007

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System
Assets			
Cash and cash equivalents (note 3)	$ 899,404	$ 513,045	$ 28,002
Receivables			
Contributions			
Employers	1	7,382	16
Employers- Long Term (note 5)	-	56,868	-
Members	605	775	-
Accrued investment income	47,005	26,738	565
Investment sales proceeds	343,324	195,321	4,127
Due from other systems	552	-	-
Total receivables	391,487	287,084	4,708
Investments, at fair value (notes 2 & 3)			
U.S. Government obligations	786,884	447,787	9,460
Domestic corporate obligations	5,091,175	2,896,915	61,204
International obligations	109,775	62,453	1,320
Domestic stocks	10,231,764	5,811,339	123,000
International stocks	4,906,355	2,786,901	58,982
Mortgages & mortgage related securities	1,663,365	946,243	19,996
Real estate	539,731	307,573	6,489
Alternative investments	288,108	163,731	3,463
Collateral for loaned securities	1,146,340	652,347	13,781
Total investments	24,763,497	14,075,289	297,695
Total assets	26,054,388	14,875,418	330,405
Liabilities			
Accounts payable & accrued expenses (note 7)	24,292	12,228	399
Investment commitments payable	1,104,264	628,341	13,275
Obligation for collateral loaned securities	1,146,340	652,347	13,781
Other liabilities	943	538	11
Due to other systems	550	632	-
Total liabilities	2,276,389	1,294,086	27,466
Net assets held in trust for pension benefits			
(A schedule of funding progress is presented on page 34)	$23,777,999	$13,581,332	$ 302,939

** Intersystem transfers have been eliminated in the financial statements.*

PENSION SYSTEM OF MARYLAND

ASSETS BY SYSTEM

State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Combined Total
$ 71,727	$ 802	$ 17,457	$ 1,530,437	$ -	$ 1,530,437
385	-	830	8,614	-	8,614
-	-	-	56,868	-	56,868
-	4	62	1,446	-	1,446
2,639	8	831	77,786	-	77,786
19,284	55	6,067	568,178	-	568,178
-	-	631	1,183	(1,183)	-
22,308	67	8,421	714,075	(1,183)	712,892
44,222	124	13,906	1,302,383	-	1,302,383
286,058	809	89,973	8,426,134	-	8,426,134
6,166	17	1,940	181,671	-	181,671
572,818	1,743	180,807	16,921,471	-	16,921,471
274,725	833	86,701	8,114,497	-	8,114,497
93,416	267	29,395	2,752,682	-	2,752,682
30,418	81	9,540	893,832	-	893,832
16,148	48	5,091	476,589	-	476,589
64,423	181	20,259	1,897,331	-	1,897,331
1,388,394	4,103	437,612	40,966,590	-	40,966,590
1,482,429	4,972	463,490	43,211,102	(1,183)	43,209,919
1,321	9	379	38,628	-	38,628
62,047	175	19,515	1,827,617	-	1,827,617
64,423	181	20,259	1,897,331	-	1,897,331
53	-	17	1,562	-	1,562
-	-	1	1,183	(1,183)	-
127,844	365	40,171	3,766,321	(1,183)	3,765,138
$ 1,354,585	$ 4,607	$ 423,319	$ 39,444,781	$ -	$ 39,444,781

STATE RETIREMENT AND

SCHEDULE OF CHANGES IN

for the Fiscal Year Ended

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System
Additions:			
Contributions (note 4):			
Employers	$ 13,403	$ 271,418	$ 15,792
Members	177,746	122,651	1,667
Other	471,221	-	145
Contribution interest (note 5)	-	3,999	-
Total contributions	662,370	398,068	17,604
Investment income			
Net appreciation (depreciation) in fair value of investments	3,267,680	1,860,263	39,892
Interest	205,758	117,364	3,368
Dividends	128,005	72,860	1,562
Real estate operating net income	18,634	10,572	229
Income before securities leading activity	3,620,077	2,061,059	45,051
Gross income from securities lending activity	62,845	35,733	771
Securities lending borrower rebates	(59,209)	(33,664)	(727)
Securities lending agent fees	(572)	(325)	(7)
Net income from securities lending activity	3,064	1,744	37
Total investment income	3,623,141	2,062,803	45,088
Less investment expenses			
Investment advisory fees	(45,222)	(25,760)	(553)
Other investment expenses	(569)	(502)	(2)
Total investment expenses (note 2E)	(45,791)	(26,262)	(555)
Net investment income	3,577,350	2,036,541	44,533
Transfers from other systems	3,704	281	-
Total additions	4,243,424	2,434,890	62,137
Deductions			
Benefit payments	1,186,254	656,412	20,223
Refunds (note 5)	7,008	8,347	4
Administrative expenses (note 2E)	11,089	9,772	31
Transfers to other systems	2,592	393	1
Total deductions	1,206,943	674,924	20,259
Net increase (decrease) in plan assets	3,036,481	1,759,966	41,878
Net assets held in trust for pension benefits:			
Beginning of the fiscal year	20,741,518	11,821,366	261,061
End of the fiscal year	$23,777,999	$13,581,332	$ 302,939

** Intersystem due from/due to have been eliminated in the financial statements*

PENSION SYSTEM OF MARYLAND

PLAN NET ASSETS BY SYSTEM

June 30, 2007

State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Subtotal	Eliminations*	Combined Total
$ 11,560	$ 515	$ 45,729	$ 358,417	$ -	$ 358,417
6,676	-	10,534	319,274	-	319,274
-	-	-	471,366	-	471,366
-	-	-	3,999	-	3,999
18,236	515	56,263	1,153,056	-	1,153,056
186,082	481	53,818	5,408,216	-	5,408,216
13,745	97	3,720	344,052	-	344,052
7,337	19	2,104	211,887	-	211,887
1,073	3	295	30,806	-	30,806
208,237	600	59,937	5,994,961	-	5,994,961
3,706	9	1,023	104,087	-	104,087
(3,494)	(9)	(964)	(98,067)	-	(98,067)
(33)	-	(9)	(946)	-	(946)
179	-	50	5,074	-	5,074
208,416	600	59,987	6,000,035	-	6,000,035
(2,567)	(7)	(764)	(74,873)	-	(74,873)
(8)	-	(11)	(1,092)	-	(1,092)
(2,575)	(7)	(775)	(75,965)	-	(75,965)
205,841	593	59,212	5,924,070	-	5,924,070
46	6	(1,009)	3,028	(3,028)	-
224,123	1,114	114,466	7,080,154	(3,028)	7,077,126
78,965	277	23,741	1,965,872	-	1,965,872
482	-	180	16,021	-	16,021
155	6	218	21,271	-	21,271
10	-	32	3,028	(3,028)	-
79,612	283	24,171	2,006,192	(3,028)	2,003,164
144,511	831	90,295	5,073,962	-	5,073,962
1,210,074	3,776	333,024	34,370,819	-	34,370,819
$ 1,354,585	$ 4,607	$ 423,319	$39,444,781	$ -	$ 39,444,781

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Investment Section

CHIEF INVESTMENT OFFICER'S REPORT

OVERVIEW

The State Retirement and Pension System ("SRPS" or the "System") returned 17.6 percent for the fiscal year ended June 30, 2007 and the market value of the System's assets increased from $34.4 billion on June 30, 2006 to $39.4 billion on June 30, 2007. This was the fourth straight year of strong returns, with domestic equity, international equity, global equity, private equity and real estate all achieving returns that exceed historical long-term averages.

The domestic equity market continued to perform well as the economy continued to accelerate despite a slowing housing market in the latter half of the fiscal year. The System's U.S. public equity portfolio earned 19.8 percent. For the current fiscal year, the Wilshire 5000 stock index returned 20.5 percent, which is an improvement from last fiscal year's return of 14.4 percent. Domestic equities underperformed international equities due to concerns regarding the domestic economy, declines in the U.S. dollar versus some other major currencies, and relative valuation levels.

For the fiscal year, the international equities market returned 29.6 percent, as measured by the Morgan Stanley Capital International All Country World ex U.S. index (MSCI ACWI ex US). For the second year in a row, international equity was the System's top performing asset class. Many international economies have improved; in particular, the Chinese economy has grown very rapidly. Emerging markets outperformed emerged markets.

Private equity also had a very positive year, returning 26.0 percent, exceeding the System's benchmark for private equity (Russell 3000 + 400 basis points) of 24.2 percent. The System's private equity program continues to move toward the two percent strategic target approved by the Board of Trustees of the System ("Board of Trustees") in 2004.

Generally, it was a good environment for fixed income as the Federal Open Market Committee stopped tightening monetary policy as inflation remained contained and yields declined. The System's fixed income return of 6.1 percent slightly underperformed relative to the overall fixed income market, as measured by the Lehman Brothers U.S. Universal Bond Index, which returned 6.6 percent.

Despite significant weakening in the U.S. housing market, the emergence of problems in the subprime mortgage market and declines in the U.S. REIT market during the second half of the fiscal year, real estate had another successful year in terms of both absolute and relative performance. The System's real estate program posted very strong results, returning 20.1 percent for the fiscal year. Performance for the National Council of Real Estate Investment Fiduciaries Property Index was 16.6 percent and the Wilshire Real Estate Securities Index was 11.7 percent.

During fiscal year 2007, the System's emerging manager program, overseen by Northern Trust Global Advisors, was funded. This program is designed to diversify the System's manager base, generate after-fee returns greater than a passive alternative and provide robust risk management. As part of an ongoing effort to increase geographic diversification in the System's real estate program,a global REIT manager was added. An Opportunities Allocation, a strategic allocation designed to facilitate the System's investment in new asset classes or investments that do not fit into traditional asset classes, was created. Additionally, the Board-approved Tactical Asset Allocation program was utilized. The Tactical Asset Allocation program is designed to provide flexibility in adjusting asset classes for tactical rebalancing. The Tactical Asset Allocation program was flat (zero basis points) at the total plan level during the 2007 fiscal year. From inception (November 16, 2004) to the end of the fiscal year, Staff's tactical allocation decisions have added a total value of eight basis points annually. Based on the value of the System as of June 30, 2007, an annualized return of eight basis points amounts to a value of approximately $32 million per year.

INVESTMENT POLICY AND OBJECTIVES

The Board of Trustees is charged with the responsibility of managing the assets of the System. The Board of Trustees is required to exercise its fiduciary duties solely in the interest of the participants, with the care, skill and diligence that a prudent person would exercise under similar circumstances. This standard of care not only permits but also encourages diversifying investments across various asset classes.

Investment objectives are designed to support fulfillment of the Agency's mission, which is to optimize risk-adjusted returns in order to ensure that sufficient assets are available to fund the payment of benefits to members and beneficiaries when due. SRPS is a long-term investor, and consequently, long-term results are emphasized, with recognition that short-term results may be volatile.

Investment objectives are implemented according to investment policies developed by the Board of Trustees. The "prudent person standard" allows the Board of Trustees to establish investment policies based on investment criteria that it defines, and it provides for the delegation of investment authority to investment professionals. System assets are managed by external investment management firms who employ both active and passive strategies. Firms retained must have a demonstrated performance record, and a clearly defined and consistently applied investment process.

The Board of Trustees has managed the SRPS' assets with the goal of achieving an annualized investment return that over a longer term timeframe:

1. ***Meets or exceeds the System's static investment policy benchmark.*** The static policy benchmark is the weighted average of the benchmarks for each asset class, using the target weightings for each asset class. The static policy benchmark enables a comparison to be made of the System's actual performance to a passively managed proxy, and facilitates measurement of the value added from active management and policy implementation.

2. ***Provides at least a three percent real rate of return (return in excess of U.S. inflation)***. The inflation related objective compares the investment performance against the rate of inflation as measured by the Consumer Price Index (CPI) plus 3.0 percent. The inflation measure provides a link to SRPS' liabilities, as they are indexed to inflation through cost-of-living adjustments.

3. ***Equals or exceeds the actuarial investment return assumption of the System adopted by the Board of Trustees***. The actuarial investment return assumption is reviewed and monitored as a measure of the expected long-term rate of growth of SRPS' assets. The actuarial return assumption as of June 30, 2007 was 7.75 percent. When adopting this actuarial assumption, the Board of Trustees anticipates, and fully expects, that the investment portfolio will achieve higher returns in some years and lower returns in other years.

The Board of Trustees also weighs three liability-oriented objectives when making asset allocation determinations. The liability-oriented objectives are:

1. To achieve and maintain a fully funded pension plan.
2. To minimize contribution volatility year to year.
3. To achieve surplus assets.

Asset allocation is a key determinant of a successful investment program, and may be responsible for determining as much as 90 percent of a fund's return in a given year. The Board of Trustees considers both the assets and liabilities when determining its asset allocation policy.

Asset allocation policy targets are determined by recognizing that liabilities (future benefit payments to SRPS' participants and beneficiaries) must be paid in full and on time. To ensure this, there is a dual focus. First, there is a focus on long-term return, to ensure that an attractive rate of return on plan assets can be earned over the period that benefits must be paid. Secondly, there is a focus on risk. This involves diversifying assets with a recognition that while individual asset classes can be volatile over short time horizons, diversification will often serve to lower overall portfolio volatility.

The SRPS portfolio continues to be well diversified. During the fiscal year, an emerging manager program and a global REIT mandate were funded. It is expected that these intiatives will play a constructive role in diversifying the SRPS portfolio.

As of June 30, 2007, the Board-approved policy targets and ranges were:

ASSET CLASS	TARGET	RANGE
U.S. Equities	40%	35 – 45%
Non-U.S. Equities	13%	10 – 16%
Global Equities	10%	8 – 12%
Private Equity	2%	0 – 3%
Equity Total	**65%**	**60 – 70%**
Fixed Income	28%	23 – 33%
Real Estate	5%	3 – 7%
Real Return	2%	1 – 3%
Opportunities Allocation	-	0 – 5%
TOTAL ASSETS	**100%**	

INVESTMENT PERFORMANCE

Investment performance is calculated using time-weighted rates of return. Total return includes interest and dividends, as well as capital appreciation.

The investment program realized a return of 17.6 percent for fiscal year 2007. Annualized returns for the three, five, and 10-year periods ending June 30 were 12.4 percent, 11.3 percent and 7.2 percent, respectively.

	FY 2007 SRPS Performance	FY 2007 Benchmark Performance	SRPS Exposure June 30, 2007
Public Equity	23.0%		
U.S. Equity	19.8%		41.3%
Wilshire 5000		20.5%	
S&P 500		20.6%	
Russell 3000		20.1%	
International Equities	29.6%		13.2%
MSCI ACWI ExUS		29.6%	
MSCI EAFE		27.0%	
Global Equity	27.5%		10.2%
MSCI AC World		25.2%	
Private Equity	26.0%		1.0%
Russell 3000+400 bps		24.2%	
Fixed Income	6.1%		27.7%
Lehman Brothers Universal Bond Index		6.6%	
Lehman Brothers Aggregate Bond Index		6.1%	
Real Estate	20.1%		4.9%
NCREIF Property (1 quater lag)		16.6%	
Wilshire Real Estate Securities		11.7%	
Real Return	3.6%		1.7%
Lehman Brothers U.S. Tips		4.0%	
TOTAL FUND	17.6%	17.6%	

The System attained its three broad investment objectives this fiscal year --exceeding a 3.0 percent real rate of return (after inflation) and exceeding the actuarial assumed rate of 7.75 percent, while meeting (but not exceeding) the return of the static policy benchmark.

ECONOMIC AND CAPITAL MARKET OVERVIEW

For most of fiscal year 2007, the world economic environment proved advantageous for the capital markets. Unemployment remained contained, with the Eurozone's unemployment rate hitting a record low in February. Inflation remained within reasonable ranges. There were a few moments when markets slipped, such as late February, 2007, when a sharp drop in the Shanghai Composite Index escalated fears about speculative bubbles within China's domestic stock market. In the end, however, fiscal year 2007 proved to be the fourth consecutive very good year for the capital markets.

On a negative note, the long anticipated slowing in U.S. housing began. In fiscal year 2007, there was a substantial cooling of the U.S. housing market reflected in flagging home sales, lower housing starts, and declining home prices. Delinquencies, defaults, and foreclosures all rose. This has led to stress on securities that are based upon or related to the U.S. housing market, in particular, housing related bonds such as structured mortgage-backed debt. The Federal Open Market Committee (FOMC) noted that despite ongoing adjustments in the housing sector, U.S.

economic growth had been moderate during the second half of the 2007 fiscal year. Through the end of the fiscal year, the FOMC's main policy concern remained the risk that inflation would fail to moderate as expected.

Equity markets made impressive gains worldwide during the fiscal year, with the support of solid corporate profits and record merger and acquisition activity overcoming modestly rising bond yields in some countries and higher commodity prices. Emerging equity markets, which are frequently the suppliers of commodities to the rest of the world, had a stellar year with a near 45 percent return. International equities outperformed domestic equities, continuing a recent trend, although the Japanese equity market continued to perform worse than domestic equity.

Overall, most bond markets performed well during the fiscal year, with emerging debt and high yield bonds leading the way. The environment remained positive overall, with investors more interested in striving for high yields than protecting themselves against credit risk. Real estate returns continued to be positive, although during the second half of the fiscal year, returns for REITs declined.

PUBLIC EQUITY

As of June 30, 2007, SRPS had $25.5 billion invested in public equities, representing 65.7 percent of the System's total assets. Public equity investments increased by $3.6 billion over the fiscal year due to a slight shift in asset allocation and substantial market appreciation. U.S. equities (including the enhanced index equity allocation) totaled $15.9 billion, an increase of $2.2 billion from the previous year. International equities totaled $5.2 billion, an increase of $0.7 billion. The global equity allocation totaled $4 billion at year end. Public equity assets were placed with 21 external managers and broadly diversified among the major countries and industry sectors of the developed and emerging markets. The managers use active and passive strategies, and are expected to outperform their assigned benchmark, net of fees.

U.S. EQUITY

As of June 30, 2007, passively managed U.S. equity assets totaled $10.9 billion and represented 27.6 percent of the System's total assets. Actively managed assets totaled $5.4 billion and represented 13.7 percent of the System's total assets. The U.S. equity allocation breakdown is as follows:

U.S. Equity	**$ Millions**	**% of Total Plan**
Passively Managed		
Equity Growth	$ 923.4	2.3%
Large Cap	596.6	1.5%
All Cap	9,354.1	23.8%
Total Passive	10,874.1	27.6%
Actively Managed		
Emerging Manager Program	340.1	0.9%
Enhanced Equity	1,552.3	3.9%
Large Cap	2,129.7	5.4%
Mid Cap	374.4	1.0%
Small Cap	203.6	0.5%
Micro Cap	759.1	1.9%
Cash Reserves	36.0	0.1%
Total Active	5,395.2	13.7%
Total U.S. Equity	**$16,269.3**	**41.4%**

INTERNATIONAL EQUITY

At the end of the fiscal year, $5.2 billion, or 13.2 percent of the SRPS' total assets were invested in international equities. The securities are managed externally by one passive portfolio manager and three active portfolio managers.

International Equity	**$ Millions**	**% of Total Plan**
Passively Managed		
MSCI AC World ex US	$ 3,675.8	9.3%
Total Passive	3,675.8	9.3%
Actively Managed		
MSCI AC World ex US	1,083.4	2.8%
S&P/Citicorp EMI World	162.0	0.4%
MSCI EAFE Small Cap	302.0	0.8%
Total Active	1,547.4	4.0%
Total International Equity	**$5,223.2**	**13.3%**

International equity returns are benchmarked against the Morgan Stanley Capital International All Country World ex U.S. Index. The combined portfolios returned 29.6 percent in fiscal year 2007, underperforming the benchmark by two basis points. International stocks were one of the year's top performing asset classes, led by strong gains in Europe, emerging markets and countries with abundant natural resources. The energy and material sectors were also up strongly; as well as technology, industrials and telecommunications.

GLOBAL EQUITY

Global equities totaled $4.0 billion, or 10.2 percent of the SRPS' total assets at fiscal year-end. The securities are managed externally by three active portfolio managers.

Global Equity	$ Millions	% of Total Plan
Actively Managed		
MSCI AC World	4,024.3	10.2%
Total Global Equity	**$ 4,024.3**	**10.2%**

Global equity returns are benchmarked against the Morgan Stanley Capital International All Country World Index. The combined portfolios returned 27.5 percent in fiscal year 2007, outperforming the benchmark by 231 basis points. This was due to successful country allocations and stock selections by the managers.

PRIVATE EQUITY

The SRPS, with the assistance of the System's private equity consultant, continued to expand the System's private equity program in fiscal year 2007. In the fiscal year ending June 30, 2007, the SRPS made commitments to 15 funds totaling approximately $402 million. This is in addition to commitments to 11 funds totaling $198 million in fiscal year 2006, and nine funds totaling $166 in fiscal year 2005. As of June 30, 2007, the total market value of the private equity program was $386 million.

For fiscal year 2008, we expect that the System's exposure to the private equity asset class will continue to increase toward the long-term targeted levels. The target allocation to this asset class is two percent with a range of zero to three percent. At June 30, 2007, the actual allocation was 1.0 percent. Given the cash flow dynamics in private equity, it will take several more years for the target allocation to be reached.

FIXED INCOME

The System's fixed income portfolio totaled $10.9 billion, representing approximately 28 percent of total assets, as of June 30, 2007. The objective of this sector is to outperform the Lehman Brothers U.S. Universal Index (Universal Index). Of the total amount, $5.4 billion (50 percent) was held in a passive strategy indexed to the Lehman Brothers U.S. Aggregate Index. The remaining $5.5 billion is actively managed by four external managers, predominantly in core plus fixed income accounts, which seek to outperform the Universal Index. During the fiscal year, the Investment Committee approved a recommendation to reduce the amount in the passive index strategy and increase the allocation to active management. The change is anticipated to occur in fiscal year 2008.

The SRPS fixed income portfolio returned 6.1 percent for the 1-year period ended June 30, 2007, versus 6.6 percent for the Universal Index. The overall returns were boosted, in part, by strong performance in the higher risk subsectors of the fixed income market, with high yield and emerging market debt securities both generating returns of 11.6 percent.

During the fiscal year, the Universal Index recorded positive returns in the first three quarters (+3.9 percent, +1.5 percent, +1.6 percent), as interest rates generally trended downward due, in part, to weaker economic indicators, particularly in the residential housing market. As a result, expectations increased that the FOMC may have to ease monetary policy. Furthermore, in February 2007, concerns intensified about the subprime mortgage industry, as rising loan delinquencies impacted lenders and investors questioned the credit quality of the underlying collateral of subprime mortgage securities. Over the next several months, the anxiety in the subprime mortgage market eased, while optimism increased about the economy. As such, expectations of a rate cut by the FOMC diminished, which, in turn, pushed interest rates upward into June 2007. The Universal Index experienced a slight negative return during the last quarter of the fiscal period (-0.5 percent). Though the System has had limited exposure to subprime mortgage securities, staff has been carefully monitoring credit issues in the System's fixed income portfolios.

Fixed income securities typically provide more consistent, less volatile returns than equity markets. However, the current and near-term bond market environment is expected to be challenging, as renewed panic in the subprime mortgage market has spilled over to other credit markets and caused risk premiums to widen from historically tight levels. It is during these periods of distress that excellent investment opportunities may arise, and the System's active managers will continue to seek out undervalued bond sectors as well as individual securities to enhance returns.

REAL ESTATE

As of June 30, 2007, approximately 4.9 percent of the System's assets, valued at $1.9 billion, were invested in a combination of real estate strategies -- private market/direct equity investments, private market/indirect equity investments, and publicly traded securities. During fiscal year 2007, several strategic rebalancing initiatives commenced, which included increasing exposure to value-added/ opportunistic real estate strategies and international investments, and decreasing exposure to U.S. publicly traded real estate securities. With the assistance of its real estate consultant, the SRPS made commitments to seven private market real estate funds, totaling about $470 million, and funded a global (ex-US) public real estate securities manager.

The SRPS real estate portfolio returned 20.1 percent versus 14.7 percent for the policy benchmark. The impressive returns in the real estate sector were attributed, in part, to healthy property market fundamentals, a compression of cap rates, and heavy capital flows. Demand remained very strong, as the real estate sector provided investors with an opportunity to obtain greater diversification, as well as higher risk-adjusted returns, relative to other investment alternatives such as fixed income. Nonetheless, returns were dampened somewhat by declines in the U.S. REIT market in the second half of the fiscal year.

Real estate returns are expected to moderate in the coming periods, as there are indications that transaction activity has slowed from a frenzied pace, appreciation gains have moderated, and higher long-term yields are placing upward pressure on cap rates.

REAL RETURN

The real return portfolio totaled $679.5 million, representing 1.7 percent of the System's total assets, as of June 30, 2007. The objective of this sector is to outperform the Lehman Brothers U.S. TIPS Index. In addition, real return strategies, which generally invest in inflation protection securities, are largely utilized to protect investment returns against inflation, and provide diversification. These types of strategies are a good fit for the System's portfolio, as benefits are inflation-adjusted. The SRPS real return portfolio returned 3.6 percent for the 1-year period ended June 30, 2007, versus 4.0 percent for the Lehman Brothers U.S. TIPS Index.

The fiscal year ended June 30, 2007 was very positive, with strong investment returns and asset growth of $5.0 billion. Public equities, private equity and real estate performed very well, even though the economic environment was not always favorable. The diversification of the System's investment program was enhanced by the funding of the System's emerging manager program and a global REIT manager, and should be further aided by the creation of the Opportunities Allocation. We are proud of the System's recent strong investment performance, but cautious about returns going forward. The System has achieved returns of 17.6 percent, 10.4 percent, 9.5 percent and 16.2 percent over the past four years, but it would not be realistic to expect future returns to be as high since the returns over the last four years are higher than long term historical averages and median returns. The investment program is well diversified and managed, and we expect it to generate good long-term returns.

Respectfully submitted,

Robert D. Feinstein
Chief Operations Officer,
Investment Division

John F. Greenberg, CFA
Acting Chief Investment Strategist

INVESTMENT PORTFOLIOS BY MANAGER
as of June 30, 2007
(Expressed in Thousands)

	Fair Value	Investment Advisory Fee
Equity Managers		
State Street Global Advisors	$14 ,502,553	$ 1,884
Templeton Investment Counsel, Inc.	1,831,491	4,173
Capital Guardian Trust Company	1,396,592	5,794
Wellington Management Co. LLP	1,085,184	3,025
Artisan Partners Limited Partnership	1,079,872	4,399
Dimensional Fund Advisors, Inc.	1,057,605	4,500
Legg Mason Capital Management, Inc.	1,037,653	2,801
Acadian Asset Management	783,091	2,407
T. Rowe Price Associates, Inc.	719,529	2,495
Payden & Rygel	519,430	609
Smith Breeden Associates	511,275	295
Alternative Investments	384,680	7,237
Relational Investors, LLC	373,135	7,121
Emerging Markets	339,005	594
GlobeFlex Capital, LP	161,365	915
Internally Managed	35,835	N/A
Other *	163	1,357
	$25,818,458	$ 49,606

	Fair Value	Investment Advisory Fee
Fixed Income Managers		
State Street Global Advisors	$ 5,385,570	$ 518
Pacific Investment Management Company	2,559,825	4,644
Western Asset Management	1,704,208	2,224
Bridgewater Associates, Inc.	1,202,201	2,045
Payden & Rygel	709,937	777
Internally Managed	3,412	N/A
	$11,565,153	$ 10,208
Real Estate Managers		
LaSalle Investment Management Inc.	$ 468,222	$ 7,442
Morgan Stanley Investment Management	438,940	1,238
LaSalle Investment Management Securities, LP	409,678	1,749
J.P. Morgan Investment Management, Inc.	382,756	2,800
Internally Managed	138,477	N/A
Alternative Investments	91,941	565
Other *	162	253
	$ 1,930,176	$ 14,047

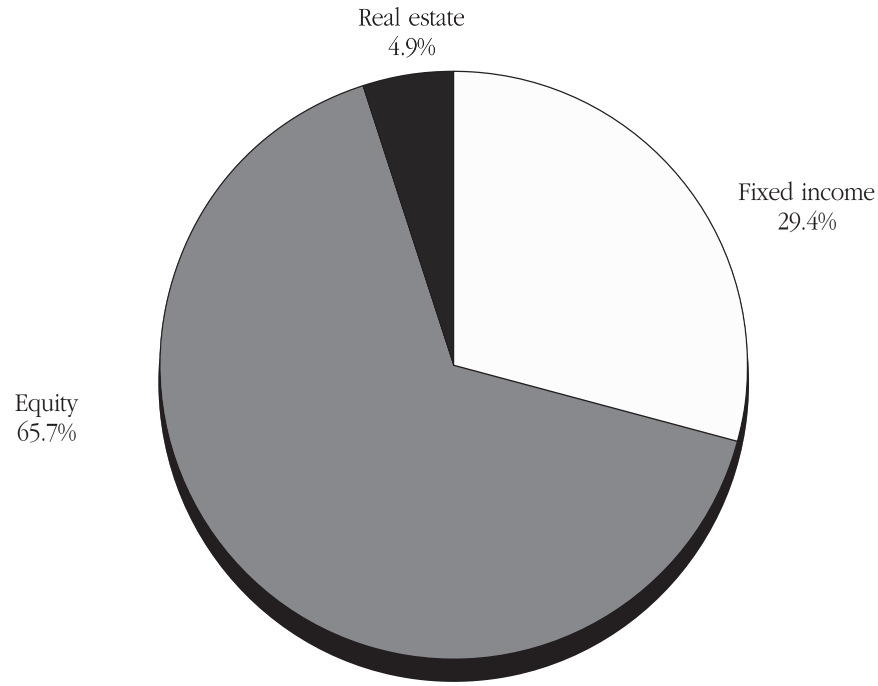
* *Consulting fees and investment managers no longer under contract as of 6/30/07.*

INVESTMENT PORTFOLIO SUMMARY
as of June 30, 2007 and 2006
(Expressed in Thousands)

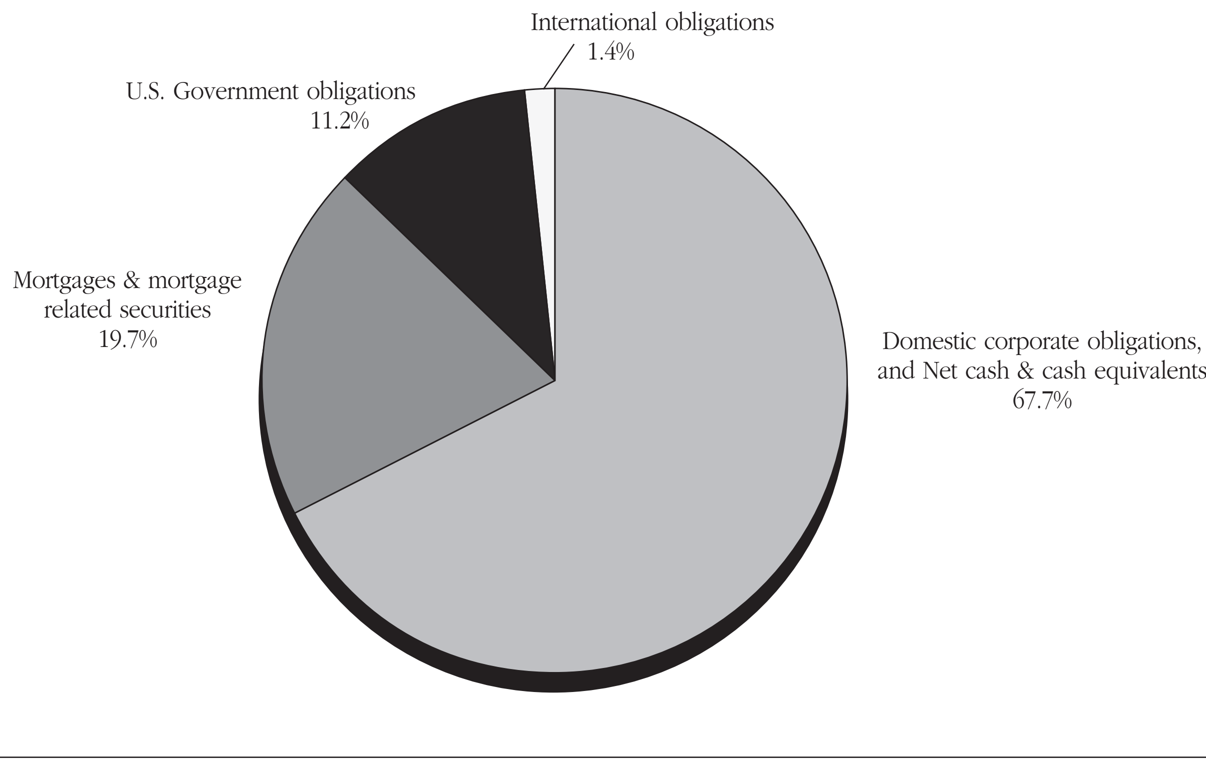
		2007		2006	
		Fair Value	**% of Fair Value**	**Fair Value**	**% of Fair Value**
	Fixed Income				
	Domestic corporate obligations	$ 7,970,706	20.3%	$ 6,411,213	18.6%
	Mortgages & mortgage related securities	2,281,655	5.8	1,800,338	5.3
	U.S. Government obligations	1,296,564	3.3	1,666,613	4.9
	International obligations	158,118	0.4	188,296	0.5
	Domestic stocks	0	0.0	493	0.1
**	Net cash & cash equivalents	(141,889)	-0.4	269,873	0.8
*	Total Fixed Income	**11,565,154**	**29.4**	**10,336,826**	**30.2**
	Equity				
	Domestic stocks	16,491,192	42.0	14,046,483	41.0
	International stocks	7,706,146	19.6	7,047,192	20.6
	Alternative investments	384,666	1.0	216,395	0.6
	Fixed Income investments	955,827	2.4	656,373	1.9
**	Net cash & cash equivalents	280,626	0.7	138,588	0.4
	Total Equity	**25,818,457**	**65.7**	**22,105,031**	**64.5**
	Real Estate				
	Real Estate Investment Trusts	838,630	2.1	966,900	2.8
	Pooled funds	382,840	1.0	332,393	1.0
	Directly owned real estate	510,991	1.3	504,036	1.5
	Alternative investments	91,924	0.2	43,941	0.1
**	Net cash & cash equivalents	105,791	0.3	(18,943)	- 0.1
	Total Real Estate	**1,930,176**	**4.9**	**1,828,327**	**5.3**
	Total Potfolio	**$39,313,787**	**100.0%**	**$34,270,184**	**100.0%**

* *Security Lending collateral payable has been netted against the actual collateral. The amounts net to zero.*
** *Includes investment receivables and payables.*

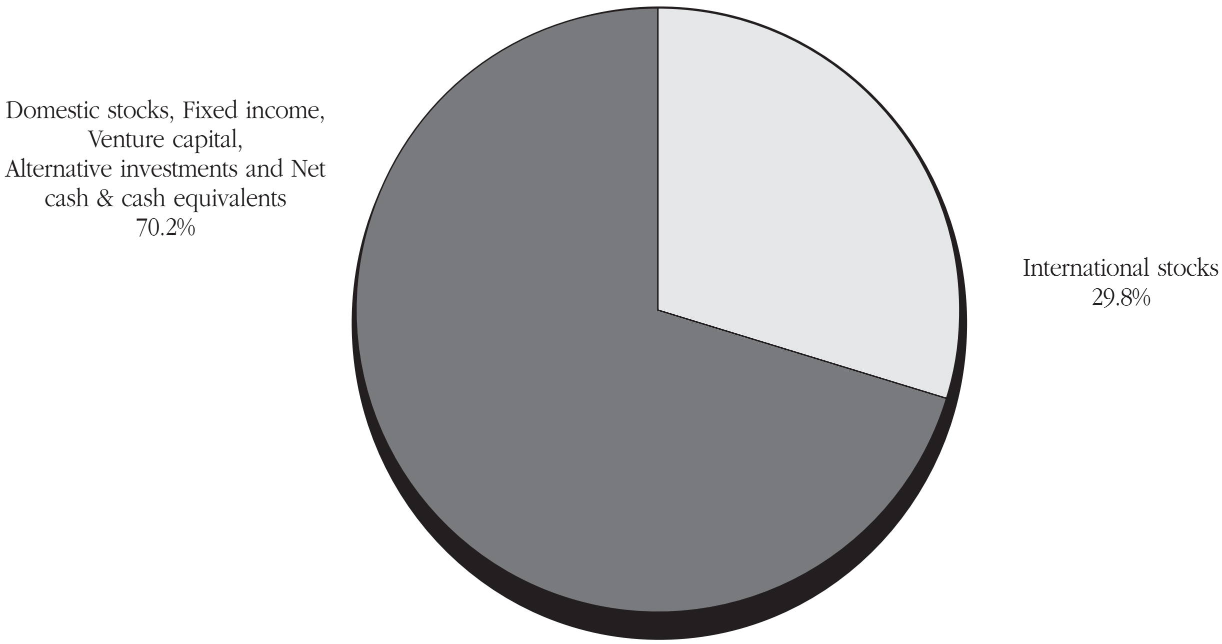
INVESTMENT PORTFOLIO ALLOCATION
as of June 30, 2007



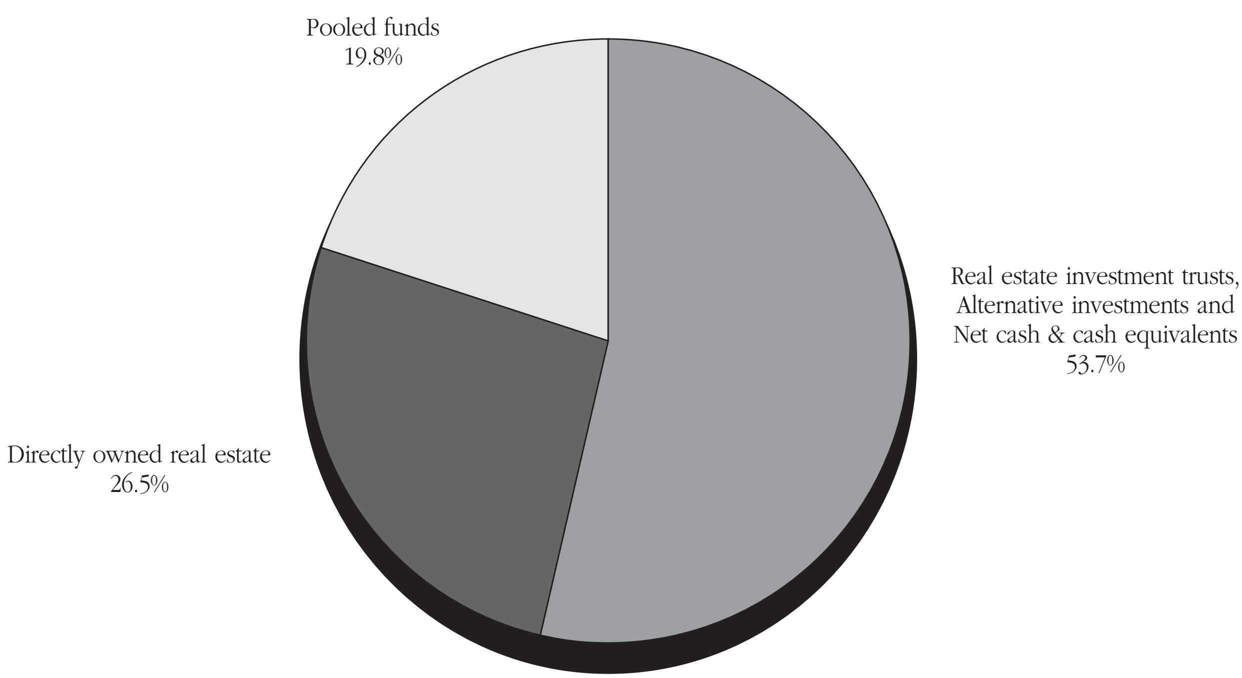
FIXED INCOME DISTRIBUTION BY TYPE
as of June 30, 2007



EQUITY DISTRIBUTION BY TYPE
as of June 30, 2007

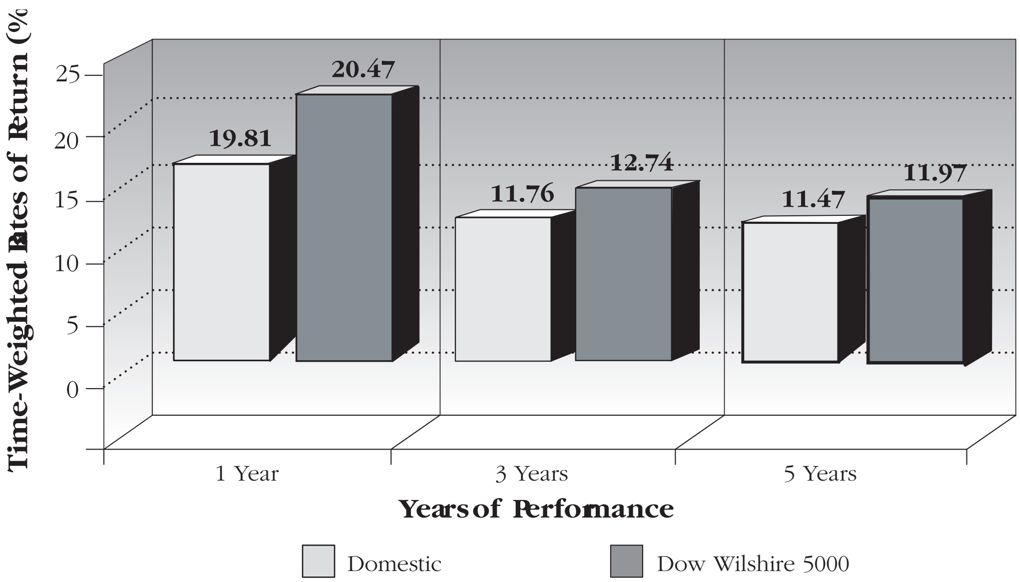


REAL ESTATE DISTRIBUTION BY TYPE
as of June 30, 2007

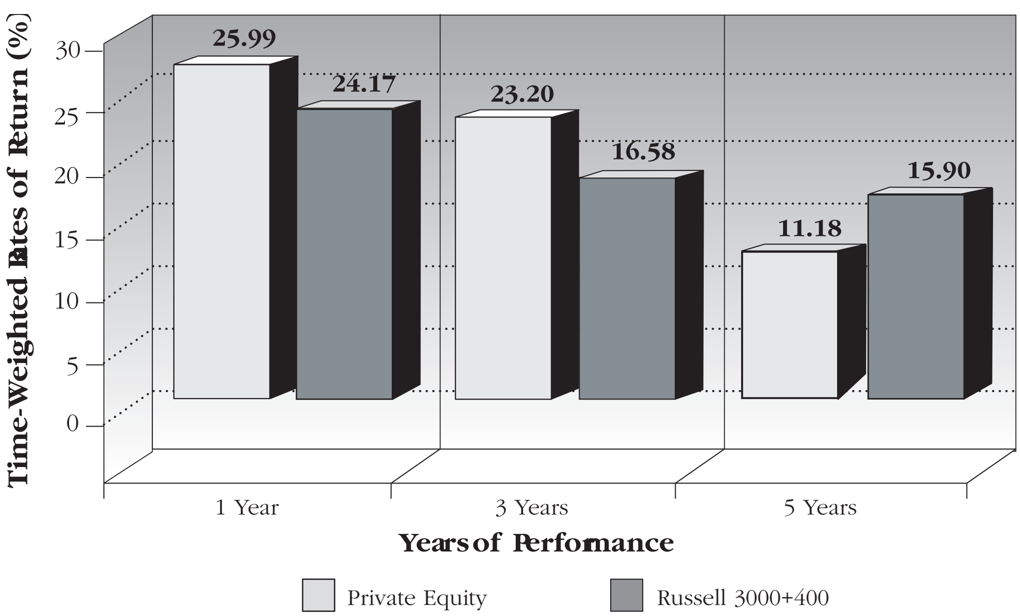


Comparative Investment Returns Ending June 30, 2007

DOMESTIC EQUITY

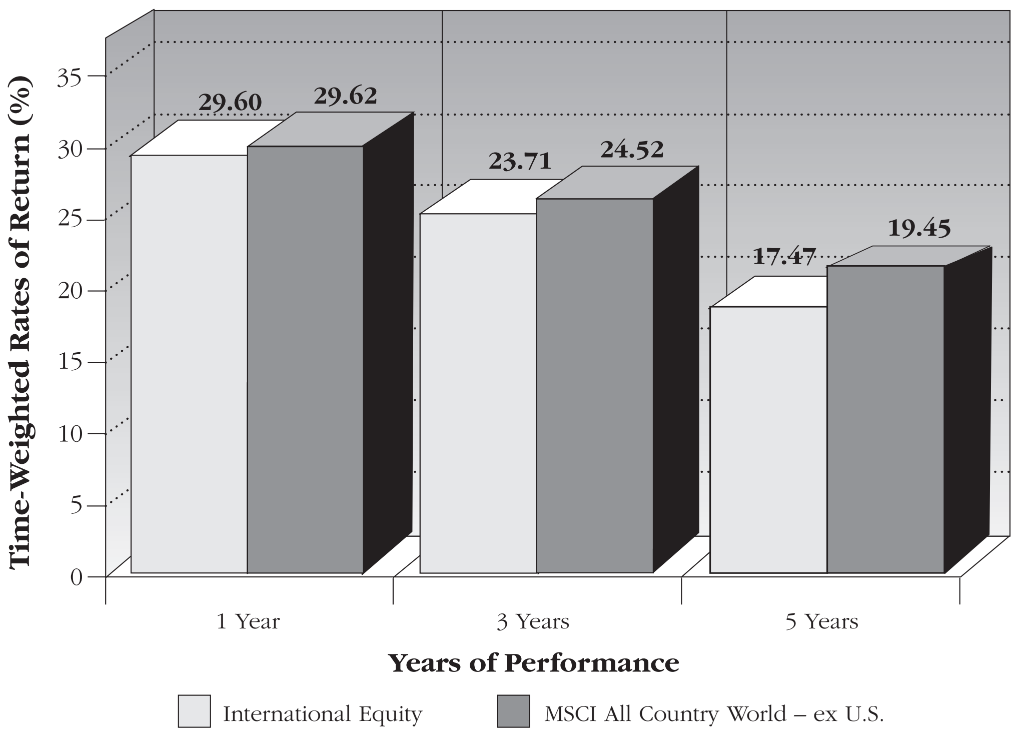


PRIVATE EQUITY

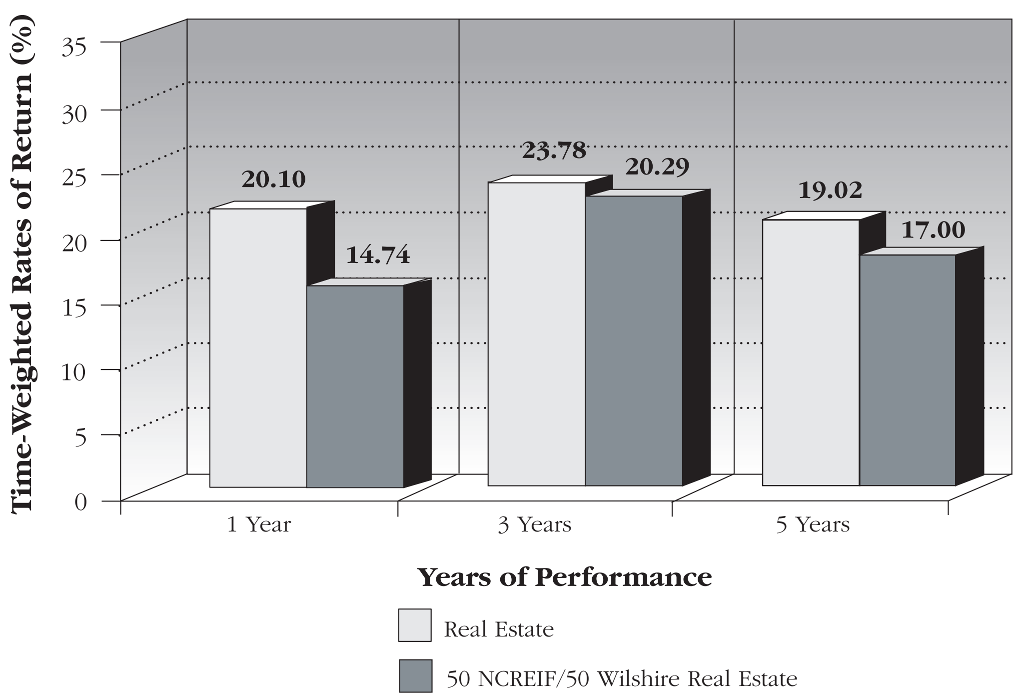


Comparative Investment Returns Ending June 30, 2007

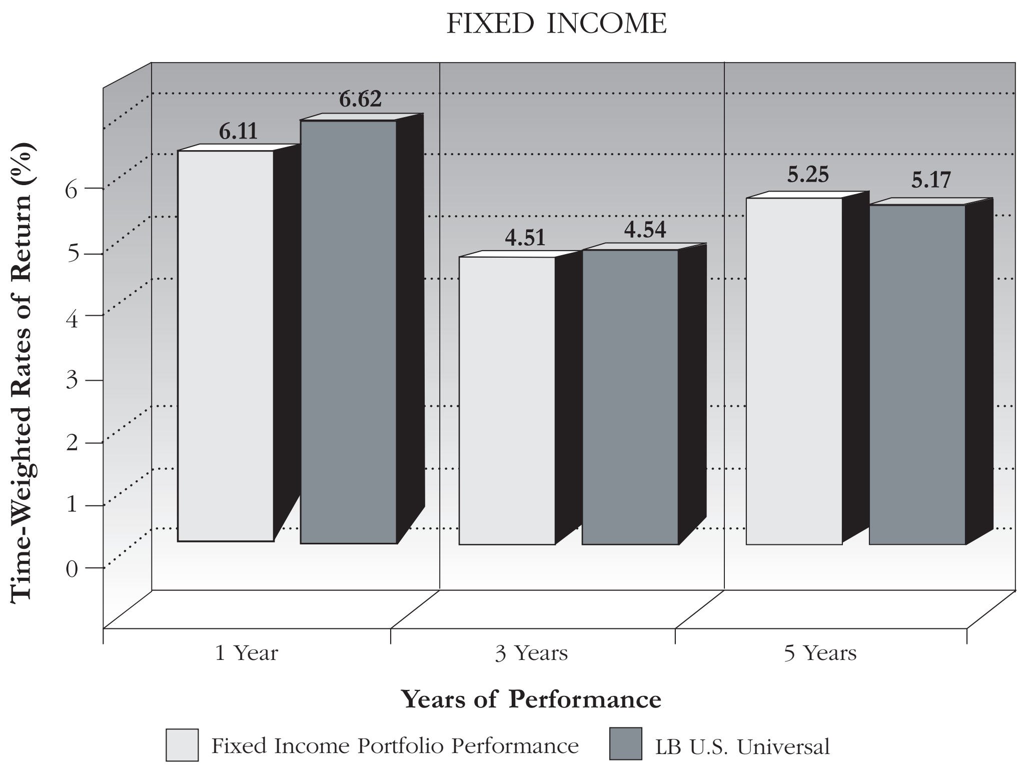
INTERNATIONAL EQUITY



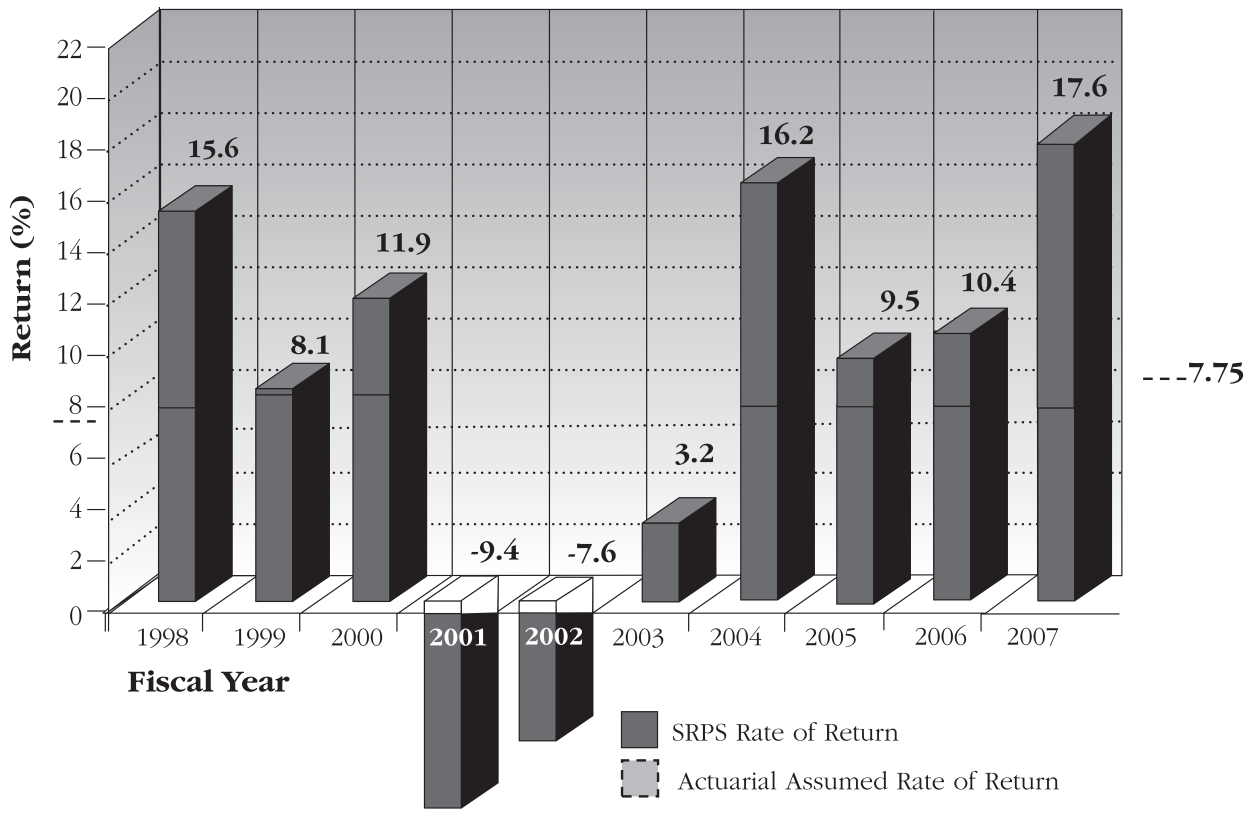
REAL ESTATE



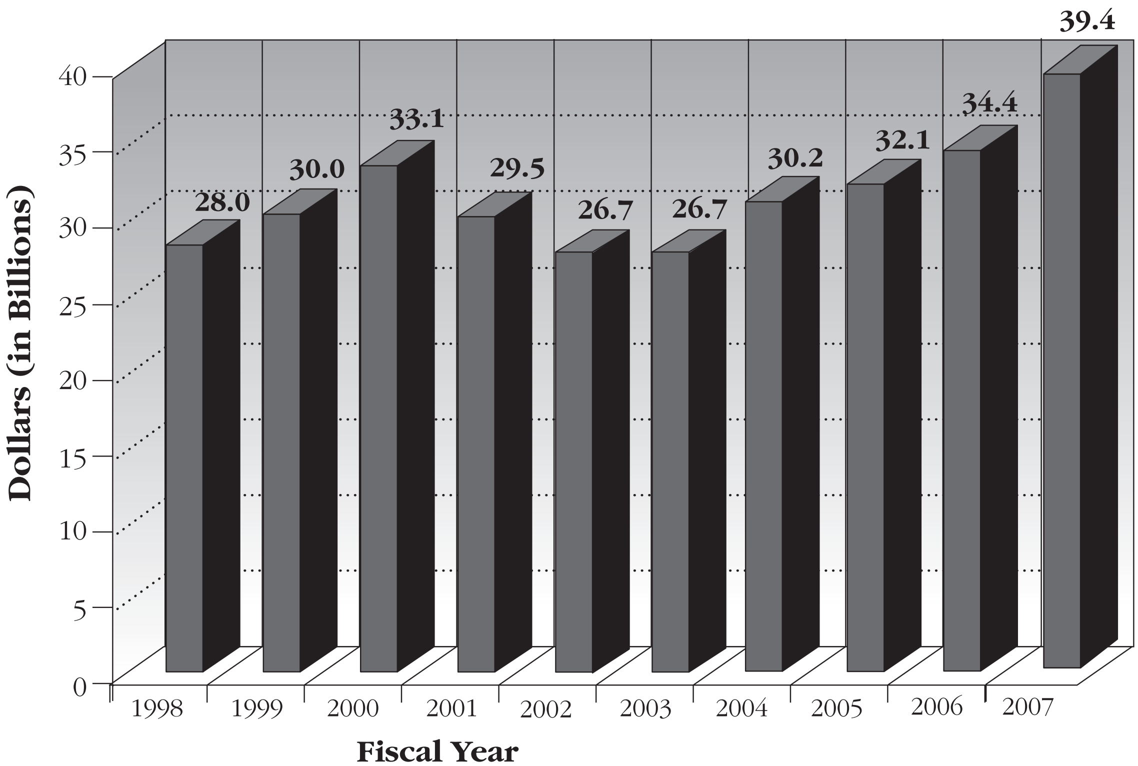
Comparative Investment Returns Ending June 30, 2007



TEN-YEAR HISTORY OF TIME-WEIGHTED ANNUAL RETURNS



TEN-YEAR GROWTH OF INVESTMENT PORTFOLIO



LARGEST 25 HOLDINGS
as of June 30, 2007

EQUITY INCOME SECURITIES:	No. of Shares	Fair Value
Exxon Mobil Corporation	1,454,866	$ 122,034,160
Google, Inc.	224,938	117,728,050
Cisco Systems, Inc.	3,755,595	104,593,321
Baxter International, Inc.	1,732,052	97,583,810
Home Depot, Inc.	2,328,303	91,618,723
General Electric Company	2,298,993	88,005,452
American International Group, Inc.	1,240,610	86,879,918
Tyco International Ltd.	2,564,700	86,661,213
Sprint Nextel Corporation	4,078,087	84,457,182
Amazon.Com, Inc.	1,216,600	83,227,606
Unitedhealth Group, Inc.	1,528,692	78,177,309
Oracle Corporation	3,547,478	69,920,791
Prudential Financial, Inc.	715,686	69,586,150
Microsoft Corporation	2,311,609	68,123,117
International Business Machines	634,409	66,771,547
Pfizer, Inc.	2,363,161	60,426,027
J.P. Morgan Chase & Co.	1,241,900	60,170,055
AES Corporation	2,633,800	57,627,544
National Semiconductor Corporation	2,032,623	57,462,252
Time Warner, Inc.	2,698,800	56,782,752
Royal Dutch Shell	1,312,356	53,508,834
Expedia, Inc.	1,824,960	53,453,078
Merck & Co., Inc.	1,041,633	51,873,323
The Directv Group, Inc.	2,221,330	51,334,936
Qwest Communications International, Inc.	5,233,844	50,768,287
TOTAL		$1,868,775,437

FIXED INCOME SECURITIES	Par	Fair Value
Federal National Mortgage Assn., TBA 6.0% due Dec. 1, 2099	$167,100,000	$ 165,259,293
Federal National Mortgage Assn., TBA 5.0% due Dec. 1, 2099	173,923,000	162,862,576
Federal National Mortgage Assn., TBA 5.5% due Dec. 1, 2099	131,120,000	126,397,635
United States Treasury Notes, 1.875% due July 15, 2015	105,757,715	99,945,626
Federal National Mortgage Assn., TBA 5.5% due Dec. 1, 2099	98,210,000	96,713,830
Federal National Mortgage Assn., TBA 5.0% due Dec. 1, 2099	90,000,000	84,262,500
Federal National Mortgage Assn., Pool 725946, 5.5% due Nov. 1, 2034	69,632,429	67,407,359
United States Treasury Notes, 3.875% due Jan. 15, 2009	65,558,320	66,596,089
United States Treasury Notes, 1.875% due July 15, 2013	69,109,240	66,283,897
United States Treasury Bonds 2.375% due Jan. 15, 2025	66,925,224	64,324,193
United States Treasury Bonds, 3.625% due April 15, 2028	52,764,302	61,113,261
Federal National Mortgage Assn., TBA 5.5% due Dec. 1, 2099	61,900,000	59,644,036
United States Treasury Notes, 2.0% due Jan. 15, 2016	57,141,017	54,275,239
United States Treasury Bonds, 2.0% due Jan. 15, 2026	59,386,055	53,751,405
Federal National Mortgage Assn., TBA 6.5% due Dec. 1, 2099	52,357,000	52,843,758
United States Treasury Bonds, 3.875% due April 15, 2029	38,966,690	47,006,380
United States Treasury Bonds, 4.75% due Feb. 15, 2037	49,371,000	46,578,577
United States Treasury Bonds, 2.375% due Jan. 15, 2027	47,475,938	45,587,222
United States Treasury Notes, 4.875% due May 31, 2009	44,850,000	44,840,516
Federal National Mortgage Assn., TBA 5.0% due Dec. 1, 2099	43,270,000	41,792,736
United States Treasury Notes, 3.5% due Jan. 15, 2011	38,246,124	39,363,630
United States Treasury Notes, 4.75% due May 31, 2012	39,375,000	39,067,775
United States Treasury Notes, 2.375% due Jan. 15, 2017	39,671,863	38,745,090
United States Treasury Notes, 3.0% due July 15, 2012	36,892,209	37,592,585
Federal Home Loan Bank 5.0% due Jan. 15, 2033	37,500,000	37,497,084
TOTAL		$1,699,752,292

A complete list of portfolio holdings is available upon request.

DOMESTIC AND INTERNATIONAL EQUITY COMMISSIONS TO BROKERS
for the Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

Brokers *	Total Shares	Total Commission
UBS	322,745	$ 737
Morgan Stanley	62,670	691
Merrill Lynch	51,068	682
JP Morgan Securities, Inc.	62,420	568
Citigroup Global Markets	36,493	561
Credit Suisse First Boston	50,473	549
Goldman Sachs	26,143	462
Lehman Brothers	36,448	451
Bear Stearns	17,436	430
Deutsche Bank	26,046	370
Nomura Securities International, Inc.	17,856	193
ADP Clearing & Outsourcing Services, Inc.	5,514	191
State Street Brokerage	15,271	158
Credit Lyonnais Securities	16,125	157
Banc of America	4,092	154
ABN Amro	19,726	153
Pershing	6,256	148
Stifel Nicolaus & Co., Inc.	4,667	143
Jeffries	5,292	118
Macquarie Securities	17,136	113
Investment Technology Group	8,270	113
Liquidnet	6,313	108
Green Street Advisors	2,171	108
Other Broker Fees.	131,830	2,356
Total Broker Commissions	952,461	$ 9,714

** Proceeds from the sale and disbursements for the purchase of securities are reported net of brokers' commissions. As such, brokers' commissions are not included as investment expenses on the Statements of Changes in Plan Net Assets. Other broker fees include 216 other brokers each receiving less than $100,000 in total commissions.*

For the fiscal year ended June 30, 2007, total domestic equity commissions averaged 2.00 cents per share, and total international equity commissions averaged 10.23 basis points per share.

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Actuarial Section

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October 11, 2007
Board of Trustees
State Retirement and Pension
System of Maryland
120 East Baltimore Street
Baltimore, MD 21202

Dear Members of the Board:

At your request, we have conducted our annual actuarial valuation of the State Retirement and Pension System of Maryland as of June 30, 2007.

Funding Objective
The funding objective of the System is to establish contribution rates which, over time, will remain relatively level as a percent of payroll. In order to achieve this, a contribution rate has generally been determined which will provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus (or less) a level percent of payroll amortization of the pre-2001 unfunded liability (or surplus) to the year 2020, and of each subsequent layer of unfunded liability (or surplus) over a 25 year period from the year it first arises. Maryland law now contains provisions (i.e. a corridor approach) to mitigate fluctuations in the contribution rate. However, due to this corridor approach, the contribution rates for both the Employees' and Teachers' Combined Systems are lower than the actuarially determined rates.

Assumptions
The actuarial assumptions were recommended by the actuary and adopted by the Board of Trustees based on a review of the System's experience completed during Fiscal Year 2008 based on data from Fiscal Years 2003 through 2006.
The actuarial assumptions and methods used for this valuation meet the parameters set for disclosure by Governmental Accounting Standards Board Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. These assumptions are presented in the financial section of the System's Comprehensive Annual Financial Report (CAFR).

The results and conclusions of this report are only valid for the July 1, 2007 plan year and should not be interpreted as applying in future years. Differences between our projections and actual amounts depend on the extent to which future experience conforms exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

Data Reliance
In performing this analysis we relied on data and other information provided by Agency staff. We performed a limited review of the data for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment. If the underlying data or information is inaccurate, incomplete, or needs to be revised, the results of our analysis may likewise be inaccurate, incomplete, or may need to be revised.

Supporting Schedules
Certain information presented in the System's June 30, 2007 CAFR was derived from our June 30, 2007 actuarial valuation report. In this regard, we were responsible for producing all supporting schedules found in the Actuarial Section.
Additionally we were responsible for producing all data presented in the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to the Required Supplementary Information shown in the Financial Section of the 2007 CAFR.
Information pertaining to valuations prior to June 30, 2006 was determined by the predecessor actuarial firm.

Certification
We the undersigned are consulting actuaries for Segal and are also members of the American Academy of Actuaries and meet their Qualification Standards to render the actuarial opinion contained herein. On the basis of the foregoing, we certify that, to the best of our knowledge this report is complete and accurate and has been prepared in accordance with Maryland's Annotated Code and generally recognized and accepted actuarial principles and practices which are consistent with the applicable Guides to Professional Conduct, Amplifying Opinions, and supporting Recommendations and Interpretations of the American Academy of Actuaries.

Sincerely,

Leon F. (Rocky) Joyner, Jr.
FCA, ASA, MAAA, EA
Vice President and Actuary

K. Eric Fredén
FSA, MAAA, EA
Vice President and Actuary

BOARD SUMMARY

This report presents the results of the June 30, 2007 actuarial valuation of the State Retirement and Pension System of Maryland (SRPS). The primary purposes of performing the annual actuarial valuation are to:

1) **determine the contributions** to be paid by the State in Fiscal Year 2009;
2) **measure and disclose**, as of the valuation date, the financial condition of the fund;
3) **indicate trends** in the financial progress of the fund;
4) **provide specific information** and documentation required by the Government Accounting Standards Board (GASB).

In this section of the report, we will present a summary of the above information in the form of:

- the actuary's comments;
- the prior year's experience of the Fund's assets, liabilities, contributions, and membership;
- a series of graphs highlighting key trends experienced by the Fund; and
- a tabular summary, intended for quick reference purposes, of all the principal results from this year's valuation, compared to the prior year's.

ACTUARY'S COMMENTS

State contributions for the year beginning July 1, 2008 are estimated to total $1,031 million. This compares to the estimated amount of about $950 million in the last valuation. This change includes a $26 million decrease in estimated state contributions attributable to new assumptions and methods adopted by the Board as a result of the actuarial experience review completed in July, 2007.

The above amounts include the limitations on State contributions, as a result of the corridor method. Without these limitations contributions in the year ended June 30, 2007 would have been $199 million higher than actually received. The expected limitation amounts for the years ending June 30, 2008 and June 30, 2009 are $162 and $113 million respectively.

The combined effect of recent plan assumption and method changes results in an effective combined amortization period for all State Systems of 28 years. However, the effective amortization period for the Employees System is 55 years. This period does not comply with current generally accepted actuarial principles and practices. The State Police System's effective net amortization period does not comply either. We recommend that the corridor method and other elements used to determine the amortization of System liabilities be reviewed and changes adopted that will assure that the funding for each System comes into and thereafter remains in compliance with applicable standards.

As a result of the recent actuarial experience review, the Board elected to modify the funding method from the Aggregate Entry Age Normal method to the Individual Entry Age Normal method. The individual method is more generally accepted. The Internal Revenue Service does not deem the Aggregate Entry Age Normal method to be a reasonable funding method. We note that while this IRS ruling is not binding for governmental pension plans, the Aggregate EAN method is rarely used and can mask plan experience and funding levels.

The estimated net experience gain/(loss) for the State portion of the system was less than 2% of the June 30, 2007 actuarial accrued liability. These results indicate that in total the actuarial assumptions reasonably estimated emerging plan liabilities. These results reflect the recent assumption and method changes adopted by the Board as a result of the recent experience review completed in July, 2007.

The balance of this section summarizes System trends, and provides the principal details on this year's experience.

PRIOR YEAR EXPERIENCE

Assets (State and Municipal)

Plan assets for this Fund are measured on both a market value and an actuarial or smoothed value basis. The actuarial smoothing method explicitly recognizes each year's investment gain or loss over a 5-year period with the final actuarial value not less than 80% nor more than 120% of the market value of assets. This is a slight change from the method used in prior years where the actuarial value of assets was calculated as 80% of the expected actuarial value and 20% of the current market value. This year's method also introduces a corridor of 20% around the market value of assets. In periods of high returns, this method significantly defers the amount of asset gains above the assumed return of 7.75%. Conversely, in periods of returns below the assumed, recognition of the losses is deferred. The primary advantage of a smoothing technique is contribution stability. The System does not feel the full impact of lower (or higher) costs when asset values fluctuate dramatically.

For the plan year ending June 30, 2007, the Fund earned **17.66%** on a market value basis and **8.51%** on a smoothed basis. While on a market basis, the Fund experienced an investment gain of **$3,360** million, the actuarial or smoothed basis experienced an investment gain of **$267** million. The specific changes between the prior year amounts and this year's are presented below.

Item (In Millions)	**Market Value**	**Actuarial Value**
June 30, 2006 Value	$34,371	$35,795
Change due to Municipal New		
Entrants/Withdrawals	11	11
Employer Contributions	834	834
Member Contributions	319	319
Benefit Payments	(2,079)	(2,079)
Expected Investment Earnings (7.75%)	2,629	2,740
Expected Value June 30, 2007	$36,085	$37,620
Investment Gain (Loss)	3,360	267
June 30, 2007 Value	$39,445	$37,887

Liabilities (State and Municipal)

Three different measures of liabilities are calculated for this fund: a total value of future obligations (PVB), an actuarial liability (EAN), and an accrued benefit liability (PVAB). Only the actuarial liability is analyzed in terms of a gain or loss experience, which then is used to determine the System's funding and accounting (GASB) disclosures. As indicated earlier System experience was reasonably related to expected results.

LIABILITIES (In Millions)	**Total Value (PVB)**	**Actuarial (EAN)**	**Accounting (PVAB)**
June 30, 2006	$53,956	$43,243	$36,627
June 30, 2007	$57,973	$49,306	$41,438

Unfunded Liabilities and Funding Ratios (State and Municipal)

The difference between assets and liabilities is the unfunded liability. This is measured in two ways: unfunded *actuarial* liabilities, which compare the actuarial liabilities to the actuarial asset value, and unfunded *accrued* benefits, which compare the present value of benefits accrued as of the valuation date to the market value of assets. These amounts are shown for June 30, 2006 and June 30, 2007, as well as the corresponding funding ratios for each (assets divided by liabilities). The primary cause for the actuarial funding ratio decrease was due to the change in funding method from the aggregate to individual entry age normal method. The main reason for the increase in the PVAB funding ratio was due to favorable investment returns on the market value of assets.

Item (In Millions)	**Actuarial**	**PVAB**
6/30/2006 Net Surplus (Unfunded)	($7,448)	($2,256)
Funding Ratio	82.8%	93.8%
6/30/2007 Net Surplus (Unfunded)	($11,419)	($1,993)
Funding Ratio	76.8%	95.2%

CONTRIBUTIONS (STATE PORTION)

In our report, we show the various contribution rates by system. In this summary, we present the overall State contribution rate, and compare it to the rate developed in the June 30, 2006 actuarial valuation. In summary, due to the net impact of modest investment gains on the actuarial value of assets, liability gains, and the effect of changes to the actuarial assumptions and methods, the overall State contribution requirement, payable in FY 2008 on the GASB disclosure basis, has decreased by **0.64%** of payroll. It is important to note that this is not the contribution rate upon which the State will base its budget in either FY 2007 or FY 2008. This analysis compares the underlying cost calculations which will be used to disclose the State's pension expense for GASB reporting purposes. The actual appropriations are calculated using the Corridor Funding Method for the two largest plans. This approach produced payroll-weighted averages of **11.10%** at June 30, 2006, increasing to **11.14%** as of June 30, 2007.

Rate as Percent of Covered Payroll – GASB Disclosure	
June 30, 2006 State Annual Required Contribution Rate	13.01%
Change due to Assumption and Method Changes	(0.28%)
Change due to Plan Amendments	0.00%
Change due to Investment Experience	(0.19%)
Change due to Liability Experience	(0.17%)
June 30, 2007 State Annual Required Contribution Rate	12.37%

Rate as Percent of Covered Payroll – Budget (Corridor Method)	
June 30, 2006 State Appropriation Rate	11.10%
Change due to Shift in Payroll for All Systems	(0.01%)
Change due to Assumption and Method Changes	(0.28%)
Change due to Plan Amendments	0.00%
Change in Systems not within the Corridor	(0.01%)
Change due to TCS being out of Corridor	0.09%
Change due to ECS being out of Corridor	0.25%
June 30, 2007 State Appropriation Rate	11.14%

Membership (State and Municipal)

There are three primary types of plan participants: current active workers, previous terminations who retain a right to a deferred vested benefit, and participants in pay status. Below, totals are compared for each participant group between June 30, 2006 and 2007.

As shown below, there was an overall increase in participation during the year of **3.6%**.

	June 30, 2007	June 30, 2006	Change
Active Participants	196,262	191,273	2.6%
Terminated Vested Participants	52,027	49,310	5.5%
Participants In Pay Status	108,355	103,831	4.4%
Total Participants	**356,644**	**344,414**	**3.6%**

Trends

One of the best ways to measure or evaluate the financial condition of a pension plan is to examine the historical trends that are evolving. Presented below are three charts which show trend information from 1993 through the end of 2007, on the System's assets and liabilities, annual cash flows in and out of the fund, and the State contribution rate. Our comments on each follow.

Chart A:
Assets/Liabilities

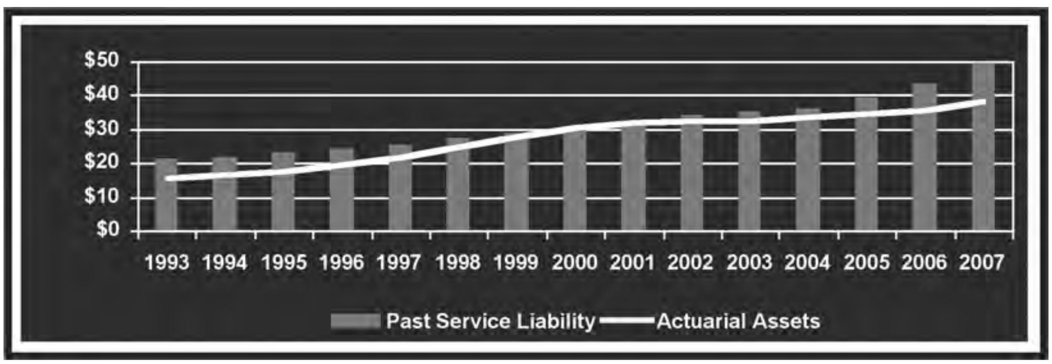


Chart B:
Cash Flows

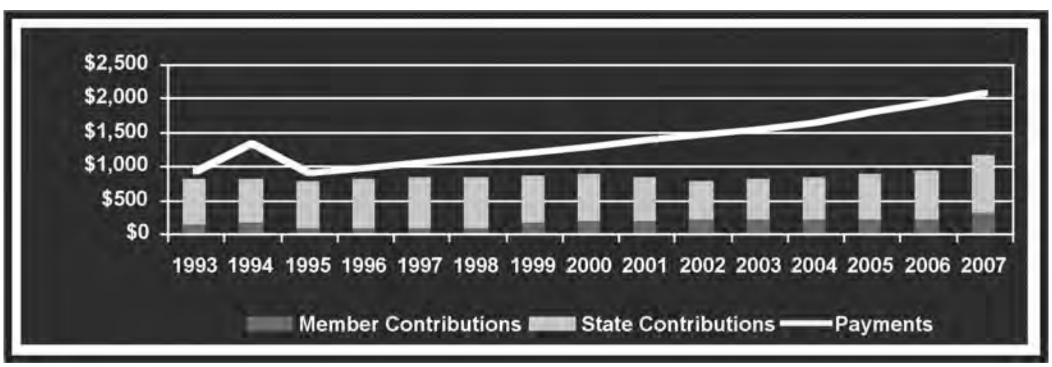
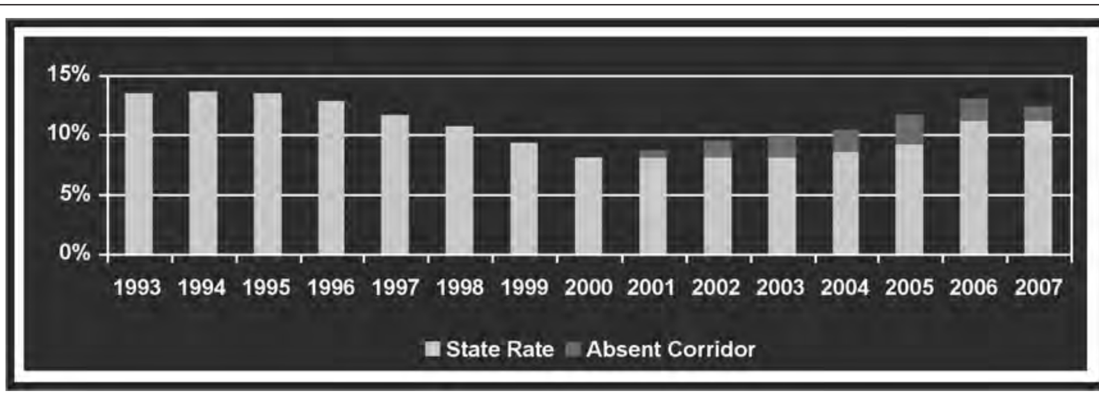


Chart C:
State Contribution Rate



Comments

Chart A presents a comparison of the actuarial value of assets with the actuarial accrued liability each year. Both values have risen steadily since the early 90's as the System has matured. The increase in liability relative to the asset increase in the last two years is the result of three main factors. These are: the benefit enhancements recognized in 2006, the changes in assumptions reflected in 2007 and the change in funding method from the aggregate EAN method to the individual EAN method. This change in method accurately reflects the comparison of System assets to liabilities as of the valuation date and removes any "masking" that may have developed under the prior method.

Chart B presents an emerging trend that will have investment implications. It is a trend being faced by many state-wide retirement systems, with the aging of our baby boomer generations. Payments to retirees are on the increase, while cash into the fund, from employer and employee contributions, is stable or declining. The ECS contribution rate started increasing in FY 2006 and the TCS contribution rate began increasing in FY 2007 under the corridor method. Additional employee contributions will increase as the employee contribution rate increases under the new plan provisions.

Finally, Chart C reflects the State contribution rate which is used each year to determine the upcoming fiscal year State appropriation. For example, the rate shown for the 2007 valuation will apply to FY 2009. It shows the impact of the past decade's sustained investment gains, a continuous lowering of the rate until 2000. Effective with the 2001 valuation, the State appropriations are performed under a corridor funding method for the two largest plans. Plan amendments and assumption and method changes are not subject to the corridor method. The appropriation remained essentially level for a few years before increasing with the 2004 valuation. In the absence of favorable investment and/or demographic experience, the contribution rates can be expected to increase to the level indicated if the corridor method had not been adopted. Without the corridor method, the State contribution in FY 2008 would be 1.91% of payroll higher than the amount to be budgeted under the corridor method. This is 15% less than the actuarial rate. Note that the full effect of the benefit enhancements first reflected for FY 2008 are included in the cost rate. The assumption and method changes are first reflected in the FY 2009 cost rate.

ACTUARIAL METHODS AND ASSUMPTIONS

Funding Method

The System uses the Individual Entry Age Normal cost method with projection to determine the actuarial accrued liability on which future employer contribution rates will be based. Under this funding method, a total contribution rate is determined which consists of two elements, the normal cost rate and the unfunded actuarial liability rate (see note 4).

The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 13-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate annual layers over a 25-year period. Each separate amortized layer has a closed amortization period. The equivalent single amortization period is 28 years.

Asset Valuation Method

Assets are valued for funding purposes by recognizing investment gains and losses over a five-year period. Each year's investment gain or loss is amortized on a straight-line basis over five years. The final actuarial value is limited to not more than 120% nor less than 80% of the market value of assets.

Actuarial Assumptions

The assumptions used for the actuarial valuation were recommended by the System's independent actuary, based upon periodic analyses of the System's experience, and adopted by the Board of Trustees. Differences between assumed and actuarial experience (i.e., actuarial gains and losses) are part of the unfunded actuarial liability. The following significant assumptions were used in the actuarial valuation as of June 30, 2007:

- a rate of return on investments of 7.75% compounded annually (adopted June 30, 2003);
- projected salary increases of 3.5% compounded annually, attributable to inflation (adopted June 30, 2007);
- additional projected salary increases ranging from 0.00% to 8.50% per year attributable to seniority and merit (adopted June 30, 2007);
- post-retirement benefit increases ranging from 3% to 4% per year depending on the system (adopted June 30, 2003);
- rates of mortality, termination of service, disablement and retirement based on actual experience during the period from 2003 through 2006 (adopted June 30, 2007); and
- an increase in the aggregate active member payroll of 3.5% annually (adopted June 30, 2007).

ACCOUNTING STATEMENT INFORMATION
THE TOTAL SYSTEMS OF THE STATE OF MARYLAND
(STATE AND MUNICIPAL)

	2007	2006
A. FASB #35 basis		
1. Present value of benefits accrued to date:		
a. Members currently receiving payments	$ 24,412,404,501	$21,050,092,563
b. Former vested members	1,244,151,941	1,036,360,357
c. Active members	15,781,022,121	14,540,067,073
2. Total present value of accrued benefits (1 (a) + 1 (b) + 1 (c))	41,437,578,563	36,626,519,993
3. Assets at market value	39,444,781,232	34,370,818,638
4. Unfunded value of accrued benefits (2-3)	$ 1,992,797,331	$ 2,255,701,355
5. Ratio of assets to value of benefits (3/2)	95.19%	93.84%
B. GASB #25 basis		
1. Actuarial accrued liabilities for retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 25,656,556,442	$22,086,452,920
2. Actuarial accrued liabilities for current employees	23,649,818,135	21,157,039,537
3. Total actuarial accrued liability (1+2)	49,306,374,577	43,243,492,457
4. Net actuarial assets available for benefits	37,886,935,596	35,795,025,134
5. Unfunded actuarial accrued liability (3-4)	$ 11,419,438,981	$ 7,448,467,323

Note: 2007 funding percentage includes change due to funding method change to Individual Entry Age Normal from Aggregate Entry Age Normal.

SUMMARY OF UNFUNDED ACTUARIAL
(STATE AND

Valuation Date June 30,	Actuarial Liabilities For: Active Member Contributions	Actuarial Liabilities For: Retirees, Term Vested and Inactives	Actuarial Liabilities For: Active Members Employer Fin. Portion	Total Liabilities	Actuarial Value of Assets
1998	$1,505,629,954	$12,866,065,299	$13,045,239,668	$27,416,934,921	$24,850,355,227
1999	1,580,530,209	13,583,779,499	13,311,070,338	28,475,380,046	27,646,578,997
2000	1,662,397,147	14,636,664,952	13,980,804,631	30,279,866,730	30,649,380,445
2001	1,752,989,299	15,939,733,140	14,777,219,354	32,469,941,793	31,914,778,425
2002	1,858,783,727	16,783,959,580	15,488,540,705	34,131,284,012	32,323,263,153
2003	1,973,371,055	17,573,117,822	15,428,111,989	34,974,600,866	32,631,464,884
2004	2,064,065,193	19,041,901,524	15,219,737,348	36,325,704,065	33,484,656,570
2005	2,148,065,879	20,975,329,441	16,010,054,447	39,133,449,767	34,519,500,395
2006	2,217,897,868	22,086,452,920	18,939,141,669	43,243,492,457	35,795,025,134
2007	2,489,643,667	25,656,556,442	21,160,174,468	49,306,374,577	37,886,935,596

SUMMARY OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS
(STATE AND MUNICIPAL)

Fiscal Year Ended	Added to Rolls: Number	Added to Rolls: Annual Allowance	Removed from Rolls: Number	Removed from Rolls: Annual Allowances	Rolls-End of Year: Number	Rolls-End of Year: Annual Allowances	% Increase in Annual Allowances	Average Annual Allowance
1998	5,217	$ 90,497,436	2,366	$30,768,198	74,339	$1,047,317,905	6.05%	$14,088
1999	5,514	93,034,053	2,375	30,628,858	77,478	1,109,723,100	5.96	14,323
2000	5,758	115,003,079	2,463	31,450,868	80,773	1,211,400,269	7.41	14,998
2001	6,071	145,073,765	2,659	34,172,397	84,185	1,322,301,637	9.15	15,708
2002	5,925	107,545,768	2,743	36,803,883	87,367	1,393,043,522	5.35	15,945
2003	6,216	123,497,444	2,780	38,449,020	90,803	1,478,091,946	6.11	16,278
2004	6,822	152,664,871	2,745	38,223,588	94,880	1,592,533,229	7.74	16,785
2005	8,179	179,497,068	2,863	41,696,122	100,196	1,730,334,175	8.65	17,269
2006	6,882	164,369,688	3,247	34,799,179	103,831	1,859,904,684	7.49	17,913
2007	5,967	177,884,598	1,443	17,852,392	108,355	2,019,936,890	8.60	18,642

LIABILITIES / SOLVENCY TEST

MUNICIPAL)

Ratio of Assets to Actuarial Liabilities						
Active Member Contributions	**Retirees Term Vested and Inactives**	**Active Members Employer Fin. Portion**	**Funded Ratio (Assets/Liab. Coverage)**	**Unfunded Actuarial Accrued Liability (UAAL)**	**Covered Payroll**	**UAAL as % of Covered Payroll**
100%	100%	80.33%	90.64%	$2,566,579,694	$5,900,456,000	43%
100	100	93.77	97.09	828,801,049	6,312,417,000	13
100	100	102.64	101.22	(369,513,715)	6,725,870,000	(5)
100	100	96.24	98.29	555,163,368	7,255,036,000	8
100	100	88.33	94.70	1,808,020,859	7,867,794,200	23
100	100	84.81	93.30	2,343,135,982	8,134,419,291	29
100	100	81.33	92.18	2,841,047,495	8,069,480,852	35
100	100	71.18	88.21	4,613,949,372	8,603,760,761	54
100	100	60.67	82.78	7,448,467,323	9,287,575,596	80
100	100	46.03	76.84	11,419,438,981	9,971,012,066	115

STATEMENT OF CHANGES IN TOTAL ACTUARIAL PRESENT VALUE OF ALL ACCRUED BENEFITS

(STATE AND MUNICIPAL)

(Expressed in Millions)

	Accumulated Benefit Obligation (FASB 35)
Actuarial present value of accrued benefits at June 30, 2006	$ 36,627
Increase (decrease) during year attributable to:	
Passage of Time	2,760
Benefits Paid – FY 2007	(2,079)
Benefits Accrued, Other Gains/Losses	3,476
Plan Amendment & Changes in Actuarial Assumptions	654
Net Increase	4,811
Actuarial present value of accrued benefits at June 30, 2007	$ 41,438

REPORT OF THE ACTUARY ON THE VALUATION OF THE
STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND
(STATE AND MUNICIPAL)

as of June *30, 2007*

Summary of Principal Results

	June 30, 2007	June 30, 2006	% Change
1. Participant Data			
Number of:			
Active Members	196,262	191,273	2.6%
Retired Members and Beneficiaries	108,355	103,831	4.4%
Vested Former Members	52,027	49,310	5.5%
Total Participants	356,644	344,414	
Covered Annual Salaries of Active Members	$ 9,971,012,065	$ 9,089,950,701	7.5%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 2,019,936,890	$ 1,859,904,684	8.6%
2. Assets and Liabilities			
Total Actuarial Liability	$49,306,374,577	$43,243,492,457	14.0%
Assets for Valuation Purposes	37,886,935,596	35,795,025,134	5.8%
Unfunded Actuarial Liability (Surplus)	$11,419,438,981	$ 7,448,467,323	53.3%
FASB Accrued Liability	$41,437,578,563	$36,626,519,993	13.1%
Market Value of Assets	39,444,781,232	34,370,818,638	14.8%
Unfunded FASB Accrued Liability (Surplus)	$ 1,992,797,331	$ 2,255,701,355	-11.7%

* *Does not include members of State Police and LEOPS who have elected the DROP.*

REPORT OF THE ACTUARY ON THE VALUATION OF THE TEACHERS' COMBINED SYSTEM OF THE STATE OF MARYLAND as of June 30, 2007

Summary of Principal Results

	June 30, 2007	June 30, 2006	% Change
1. Participant Data			
Number of:			
Active Members	103,577	100,318	3.2%
Retired Members and Beneficiaries	52,039	50,279	3.5%
Vested Former Members	22,719	21,053	7.9%
Total Participants	178,335	171,650	
Covered Annual Salaries of Active Members	$ 5,790,765,331	$ 5,161,482,879	8.4%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 1,213,307,292	$ 1,126,950,408	7.7%
2. Assets and Liabilities			
Total Actuarial Liability	$29,112,727,442	$25,617,483,931	13.6%
Assets for Valuation Purposes	22,814,759,559	21,575,451,378	5.7%
Unfunded Actuarial Liability (Surplus)	$6,297,967,883	$ 4,042,032,553	55.8%
FASB Accrued Liability	$24,336,859,475	$21,559,930,484	12.9%
Market Value of Assets	23,777,998,866	20,741,517,825	14.6%
Unfunded FASB Accrued Liability (Surplus)	$ 558,860,609	$ 818,412,659	-31.7%

REPORT OF THE ACTUARY ON THE VALUATION OF THE EMPLOYEES' COMBINED SYSTEM OF THE STATE OF MARYLAND

(STATE AND MUNICIPAL)

as of June *30, 2007*

Summary of Principal Results

	June 30, 2007	June 30, 2006	% Change
1. Participant Data			
Number of:			
Active Members	88,699	87,100	1.8%
Retired Members and Beneficiaries	53,039	50,487	5.1%
Vested Former Members	29,107	28,063	3.7%
Total Participants	170,845	165,650	
Covered Annual Salaries of Active Members	$ 4,016,220,720	$ 3,707,419,470	5.9%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 678,646,762	$ 615,281,664	10.3%
2. Assets and Liabilities			
Total Actuarial Liability	$17,429,416,705	$15,291,090,847	14.0%
Assets for Valuation Purposes	13,025,978,459	12,287,941,567	6.0%
Unfunded Actuarial Liability (Surplus)	$ 4,403,438,246	$ 3,003,149,280	46.6%
FASB Accrued Liability	$14,528,727,133	$12,808,953,126	13.5%
Market Value of Assets	13,579,183,720*	11,821,365,766	14.9%
Unfunded FASB Accrued Liability (Surplus)	$ 949,543,413	$ 987,587,360	-3.9%

** Reflects a post 6/30/2007 system transfer to the Law Enforcement Officers' Pension System.*

REPORT OF THE ACTUARY ON THE VALUATION OF THE STATE POLICE RETIREMENT SYSTEM OF THE STATE OF MARYLAND
as of June 30, 2007

Summary of Principal Results

	June 30, 2007	June 30, 2006	% Change
1. Participant Data			
Number of:			
Active Members	1,416	1,441	-1.7%
Retired Members and Beneficiaries	2,063	1,937	6.5%
Vested Former Members	54	58	-6.9%
Total Participants	3,533	3,436	
Covered Annual Salaries of Active Members	$ 83,190,937	$ 79,049,617	3.2%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 81,578,853	$ 75,249,756	8.4%
2. Assets and Liabilities			
Total Actuarial Liability	$ 1,569,431,804	$ 1,325,874,916	18.4%
Assets for Valuation Purposes	1,334,374,954	1,301,876,790	2.5%
Unfunded Actuarial Liability (Surplus)	$ 235,056,850	$ 23,998,126	879.5%
FASB Accrued Liability	$ 1,496,714,217	$ 1,286,976,803	16.3%
Market Value of Assets	1,354,584,328	1,210,073,370	11.9%
Unfunded FASB Accrued Liability (Surplus)	$ 142,129,889	$ 76,903,433	84.8%

REPORT OF THE ACTUARY ON THE VALUATION OF THE
PENSION PLAN OF JUDGES AND THEIR SURVIVING SPOUSES
as of June 30, 2007

Summary of Principal Results

	June 30, 2007	June 30, 2006	% Change
1. Participant Data			
Number of:			
Active Members	297	296	0.3%
Retired Members and Beneficiaries	335	330	1.5%
Vested Former Members	13	14	-7.1%
Total Participants	645	640	
Covered Annual Salaries of Active Members	$ 37,638,491	$ 35,524,704	4.7%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 21,264,343	$ 20,135,364	5.6%
2. Assets and Liabilities			
Total Actuarial Liability	$382,454,729	$352,537,011	8.5%
Assets for Valuation Purposes	293,051,654	273,678,641	7.1%
Unfunded Actuarial Liability (Surplus)	$ 89,403,075	$ 78,858,370	13.4%
FASB Accrued Liability	$372,573,833	$340,463,117	9.4%
Market Value of Assets	302,939,369	261,060,907	16.0%
Unfunded FASB Accrued Liability (Surplus)	$ 69,634,464	$ 79,402,210	-12.3%

REPORT OF THE ACTUARY ON THE VALUATION OF THE

LAW ENFORCEMENT OFFICERS' PENSION SYSTEM OF THE STATE OF MARYLAND

(STATE AND MUNICIPAL)

as of June 30, 2007

Summary of Principal Results

	June 30, 2007	June 30, 2006	% Change
1. Participant Data*			
Number of:			
Active Members	2,217	2,063	7.5%
Retired Members and Beneficiaries	863	782	10.4%
Vested Former Members	127	115	10.4%
Total Participants	3,207	2,960	
Covered Annual Salaries of Active Members	$122,015,164	$104,515,314	14.4%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 24,853,311	$ 22,008,960	12.9%
2. Assets and Liabilities			
Total Actuarial Liability	$803,361,667	$649,825,724	23.6%
Assets for Valuation Purposes	414,495,432	352,415,577	17.6%
Unfunded Actuarial Liability (Surplus)	$388,866,235	$297,410,147	30.8%
FASB Accrued Liability	$694,978,289	$623,901,419	11.4%
Market Value of Assets	425,467,922**	333,024,309	27.8%
Unfunded FASB Accrued Liability (Surplus)	$269,510,367	$290,877,110	-7.3%

** Does not include members who elected DROP.*

*** Reflects a post 6/30/2007 system transfer from the Employees' Retirement and Pension System.*

REPORT OF THE ACTUARY ON THE VALUATION OF THE LOCAL FIRE AND POLICE SYSTEM OF THE STATE OF MARYLAND
as of June 30, 2007

Summary of Principal Results

	June 30, 2007	June 30, 2006	% Change
1. Participant Data			
Number of:			
Active Members	56	55	1.8%
Retired Members and Beneficiaries	16	16	0.0%
Vested Former Members	7	7	0.0%
Total Participants	79	78	
Covered Annual Salaries of Active Members	$ 2,181,422	$ 1,958,717	9.2%
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 286,329	$ 278,532	2.8%
2. Assets and Liabilities			
Total Actuarial Liability	$ 8,982,230	$ 6,680,028	34.5%
Assets for Valuation Purposes	4,275,538	3,661,181	16.8%
Unfunded Actuarial Liability (Surplus)	$ 4,706,692	$ 3,018,847	55.9%
FASB Accrued Liability	$ 7,725,616	$ 6,295,044	22.7%
Market Value of Assets	4,607,027	3,776,461	22.0%
Unfunded FASB Accrued Liability (Surplus)	$ 3,118,589	$ 2,518,583	23.8%

SCHEDULE OF ACTIVE MEMBERSHIP VALUATION DATA BY PLAN

Teachers' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1998	14,346	$ 760,092,729	$52,983	3.56%
1999	13,043	719,046,552	55,129	4.05
2000	11,634	671,990,806	57,761	4.77
2001	10,396	638,864,807	61,453	6.39
2002	9,270	604,172,528	65,175	6.06
2003	8,199	555,522,563	67,755	3.96
2004	7,197	502,487,678	69,819	3.05
2005	6,255	464,693,323	74,291	6.41
2006	5,449	413,849,937	75,950	2.23
2007	4,788	383,619,438	80,121	5.49

Teachers' Pension

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1998	71,435	$2,559,167,548	$35,825	2.01%
1999	75,578	2,831,567,375	37,465	4.58
2000	79,297	3,057,854,648	38,562	2.93
2001	82,901	3,355,335,942	40,474	4.96
2002	87,086	3,718,881,395	42,704	5.51
2003	89,099	3,966,679,839	44,520	4.25
2004	88,765	4,113,119,415	46,337	4.08
2005	91,535	4,590,698,122	50,152	8.23
2006	94,869	4,855,335,579	51,179	2.04
2007	98,789	5,326,145,893	53,914	5.34

Employees' Retirement
(State and Municipal)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1998	13,149	$ 439,012,253	$33,388	0.89%
1999	12,657	436,772,178	34,508	3.35
2000	12,213	444,062,220	36,360	5.37
2001	11,962	457,899,607	38,280	5.28
2002	11,722	470,462,717	40,135	4.85
2003	11,347	462,088,968	40,723	1.47
2004	10,489	438,455,277	41,801	2.65
2005	9,869	423,715,070	42,934	2.71
2006	10,121	467,808,791	46,222	7.66
2007	9,980	472,525,475	47,347	2.44

SCHEDULE OF ACTIVE MEMBERSHIP VALUATION DATA BY PLAN
(continued)

Employees' Pension
(State and Municipal)

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1998	68,893	$2,009,173,639	$ 29,164	1.79%
1999	70,426	2,176,887,154	30,910	5.99
2000	73,212	2,385,187,733	32,579	5.40
2001	76,024	2,626,959,051	34,554	6.06
2002	78,584	2,886,208,074	36,728	6.29
2003	77,939	2,961,965,306	38,004	3.47
2004	75,955	2,964,093,317	39,024	2.68
2005	76,787	3,187,380,273	41,509	6.37
2006	76,979	3,325,316,541	43,198	4.07
2007	78,719	3,543,695,246	45,017	4.21

Judges' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1998	273	$ 25,552,537	$ 93,599	0.31%
1999	283	29,576,854	104,512	11.66
2000	283	30,146,837	106,526	1.93
2001	281	30,554,439	108,735	2.07
2002	281	31,824,096	113,253	4.16
2003	287	33,168,859	115,571	2.05
2004	283	33,149,832	117,137	1.36
2005	282	33,897,984	120,206	2.62
2006	296	35,939,104	121,416	1.01
2007	297	37,638,491	126,729	4.38

State Police Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1998	1,635	$ 70,663,067	$ 43,219	9.05%
1999	1,647	75,601,750	45,903	6.21
2000	1,636	79,388,246	48,526	5.71
2001	1,578	79,382,508	50,306	3.67
2002	1,589	81,141,520	52,323	4.01
2003	1,542	80,838,519	52,424	0.19
2004	1,445	77,531,613	53,655	2.35
2005	1,439	77,610,367	53,934	0.52
2006	1,441	80,648,855	55,967	3.77
2007	1,416	83,190,937	58,751	4.97

SCHEDULE OF ACTIVE MEMBERSHIP VALUATION DATA BY PLAN
(continued)

Law Enforcement Officers' Pension

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1998	755	$ 30,511,663	$ 40,413	(0.72)%
1999	862	36,435,243	42,268	4.59
2000	1,130	50,301,859	44,515	5.32
2001	1,318	60,438,291	45,856	3.01
2002	1,410	65,915,519	46,748	1.95
2003	1,481	69,469,540	46,907	0.34
2004	1,675	78,628,672	46,942	0.07
2005	1,826	88,925,957	48,700	3.75
2006	2,063	106,668,684	51,706	6.17
2007	2,217	122,015,164	55,036	6.44

Local Fire and Police

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1998	177	$ 6,287,842	$ 35,525	2.63%
1999	178	6,529,920	36,685	3.27
2000	184	6,937,750	37,705	2.78
2001	140	5,600,965	40,007	6.11
2002	181	7,188,351	39,715	(0.73)
2003	127	4,685,697	36,895	(7.10)
2004	52	1,782,520	34,279	(7.09)
2005	57	2,085,416	36,586	6.73
2006	55	2,008,605	36,520	(0.18)
2007	56	2,181,422	38,954	6.66

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Statistical Section

The Maryland State Retirement and Pension System (MSRPS) is implementing GASB Statement 44, *Economic Condition Reporting: The Statistical Section.* This statement establishes standardized reporting requirements relative to the supplementary information provided in this section in an effort to improve the understandability and usefulness of the information presented. GASB Statement 44 further states that the purpose of the Statistical Section is to provide historical perspective, context, and detail to assist readers in using the information in the financial statements and the notes to the financial statements to better understand and assess the System's overall economic condition. The schedules within the Statistical Section are classified into the following four categories: Financial Trends, Revenue Capacity, Demographic and Economic information, and Operating Information.

The schedules beginning on page 85 show financial trend information to assist users in understanding and assessing how the MSRPS's financial position has changed over the past 10 years. The financial trend schedules presented are:

- Changes in Net Assets
- Benefits Expense by Type

The schedules beginning on page 86 show demographic and economic information and operating information. The demographic and economic information is intended to assist users in understanding the environment in which MSRPS operates. The operating information is intended to provide contextual information about MSRPS's operations to assist readers in using financial statement information. The demographic and economic information and the operating information presented include:

- Schedule of Average Benefit Payments
- Funding Progress
- Contribution Rates by Plan
- Schedule of Retired Members by Type
- Schedule of Active Membership by Plan
- Schedule of Retirees and Beneficiaries by Plan
- Revenues by Source and Expenses by Type
- Revenues vs. Expenses
- Principal Participating Employers

TEN-YEAR HISTORY OF CHANGES IN NET ASSETS

for the Years Ended June 30

(dollars in thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Additions										
Employer contributions	$ 735,788	$ 693,353	$ 682,422	$ 634,309	$ 581,371	$ 606,900	$ 632,052	$ 670,554	$ 720,876	$ 833,782
Members contributions	78,609	162,342	182,507	189,769	199,304	207,584	204,158	208,997	215,077	319,274
Net Investment income	3,782,237	2,225,398	3,487,722	(3,138,763)	(2,265,315)	756,747	4,202,632	2,766,389	3,225,649	5,924,070
Total Additions	4,596,634	3,081,093	4,352,651	(2,314,685)	(1,484,640)	1,571,231	5,038,842	3,645,940	4,161,602	7,077,126
Deductions										
Benefit payments	1,047,774	1,115,086	1,190,954	1,272,804	1,372,325	1,474,257	1,570,622	1,697,397	1,829,468	1,965,872
Refunds	20,007	16,898	16,805	16,977	17,476	16,310	11,942	19,162	16,455	16,021
Administrative expenses	10,441	24,742	19,751	24,823	20,064	21,352	17,376	22,386	18,579	21,271
Total Deductions	1,078,222	1,156,726	1,227,510	1,314,604	1,409,865	1,511,919	1,599,940	1,738,945	1,864,502	2,003,164
Changes in net assets	$3,518,412	$1,924,367	$3,125,141	$(3,629,289)	$(2,894,505)	$ 59,312	$3,438,902	$1,906,995	$2,297,100	$5,073,962

SCHEDULE OF BENEFIT EXPENSE BY TYPE

(Expressed In Thousands)

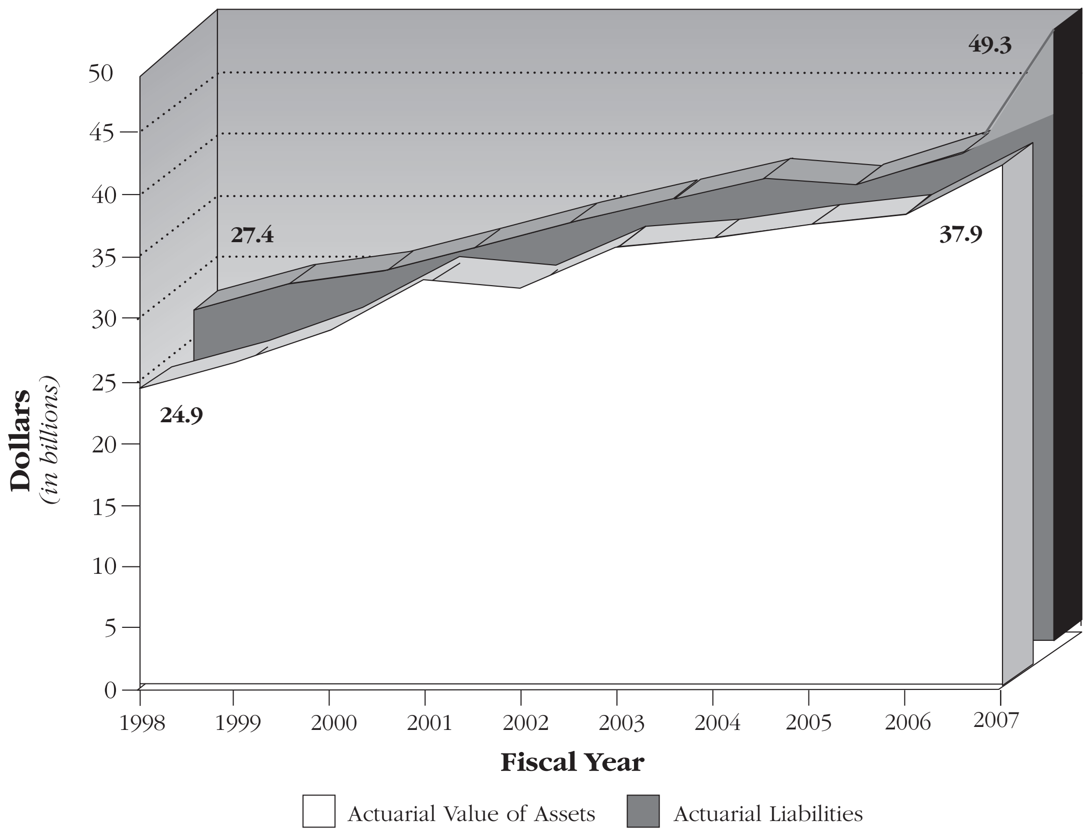
Fiscal Year	Age & Service Benefits		Death In Service Pre-Retirement Benefits	Disability Benefits			Death After Retirement Post-Retirement Benefits	Total
				Retirees				
	Retirees	Survivors		Accidental	Ordinary	Survivors		
1998	$ 887,541	$ 51,908	$ 6,756	$ 28,465	$ 55,661	$ 5,866	$ 11,577	$ 1,047,774
1999	942,736	55,997	6,335	33,788	59,219	6,451	10,560	1,115,086
2000	974,585	62,158	7,372	25,801	96,168	14,073	10,797	1,190,954
2001	1,039,129	66,756	7,561	29,230	103,575	15,599	10,954	1,272,804
2002	1,116,884	72,211	7,908	32,642	113,107	16,836	12,738	1,372,326
2003	1,197,037	78,064	7,443	36,113	122,967	18,355	14,278	1,474,257
2004	1,275,254	82,862	8,515	39,777	131,115	19,798	13,301	1,570,622
2005	1,377,977	88,895	8,369	43,933	142,872	21,318	14,033	1,697,397
2006	1,479,007	101,395	8,655	48,351	152,900	24,036	15,124	1,829,468
2007	1,597,722	102,972	10,133	52,505	166,561	24,695	11,284	1,965,872

STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

Average Benefit Payments – *Last Ten Years*

	Years Credited Service						
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
-Retirement Effective Dates							
Period 7/1/1997 to 6/30/1998							
Average monthly benefit	$ 236	$ 407	$ 545	$ 945	$1,583	$2,434	$2,278
Monthly final average salary	$1,877	$2,149	$2,569	$2,827	$3,420	$4,098	$3,660
Number of retired members	135	502	423	636	828	1,056	458
Period 7/1/1998 to 6/30/1999							
Average monthly benefit	$ 303	$ 381	$ 659	$1,027	$1,684	$2,514	$2,285
Monthly final average salary	$1,974	$2,092	$2,681	$2,900	$3,546	$4,302	$3,709
Number of retired members	143	486	548	666	904	1,175	555
Period 7/1/1999 to 6/30/2000							
Average monthly benefit	$ 269	$ 401	$ 661	$1,030	$1,621	$2,468	$2,401
Monthly final average salary	$1,746	$2,148	$2,641	$2,989	$3,539	$4,279	$3,987
Number of retired members	147	544	589	644	881	1,533	615
Period 7/1/2000 to 6/30/2001							
Average monthly benefit	$ 301	$ 387	$ 688	$1,066	$1,635	$2,496	$2,211
Monthly final average salary	$2,091	$2,260	$2,822	$3,201	$3,617	$4,419	$3,761
Number of retired members	183	575	584	657	924	1,560	670
Period 7/1/2001 to 6/30/2002							
Average monthly benefit	$ 327	$ 423	$ 739	$1,111	$1,534	$2,493	$2,349
Monthly final average salary	$1,951	$2,389	$2,999	$3,365	$3,689	$4,584	$4,091
Number of retired members	178	555	645	662	856	1,471	685
Period 7/1/2002 to 6/30/2003							
Average monthly benefit	$ 282	$ 463	$ 750	$1,087	$1,605	$2,527	$2,287
Monthly final average salary	$2,062	$2,521	$3,195	$3,597	$3,859	$4,774	$4,200
Number of retired members	242	595	671	731	884	1,453	858
Period 7/1/2003 to 6/30/2004							
Average monthly benefit	$ 295	$ 452	$ 767	$1,066	$1,616	$2,520	$2,433
Monthly final average salary	$2,416	$2,634	$3,287	$3,640	$4,000	$4,949	$4,585
Number of retired members	273	669	669	795	1,009	1,539	1,172
Period 7/1/2004 to 6/30/2005							
Average monthly benefit	$ 349	$ 509	$ 742	$1,105	$1,591	$2,510	$2,361
Monthly final average salary	$2,461	$2,818	$3,392	$3,882	$4,136	$5,071	$4,615
Number of retired members	254	710	689	878	986	1,552	1,368
Period 7/1/2005 to 6/30/2006							
Average monthly benefit	$ 303	$ 525	$ 819	$1,130	$1,555	$2,426	$2,439
Monthly final average salary	$2,409	$2,825	$3,425	$4,031	$4,183	$5,147	$4,782
Number of retired members	261	713	702	850	872	1,454	1,319
Period 7/1/2006 to 6/30/2007							
Average monthly benefit	$ 457	$ 637	$ 868	$1,253	$1,696	$2,499	$2,546
Monthly final average salary	$3,202	$3,425	$3,733	$4,249	$4,524	$5,435	$5,052
Number of retired members	225	666	696	845	871	1,248	1,268

TEN-YEAR HISTORY OF FUNDING PROGRESS



TEN-YEAR HISTORY OF EMPLOYER CONTRIBUTION RATES BY PLAN

	State					Participating Governmental Units			
Fiscal Year	Teachers' Combined Rate	Employees' Combined Rate	Judges' Retirement	State Police Retirement	Enforcement Officers' Pension	Local Fire and Police	Law Enforcement Officers' Pension	Employees' Retirement	Employees' Pension
1998	15.48%	8.21%	52.49%	13.08%	26.27%	16.29%	N/A	11.96%	6.96%
1999	13.99	7.13	52.12	10.91	25.60	16.42	N/A	10.91	5.91
2000	12.54	7.15	48.18	1.26	22.96	14.99	N/A	8.70	3.70
2001	10.95	5.71	46.75	8.44	23.38	15.00	N/A	7.81	2.81
2002	9.35	4.73	42.66	5.83	32.41	14.85	31.83%	6.75	1.75
2003	9.35	4.73	43.92	5.78	36.10	14.78	29.59	6.95	1.95
2004	9.35	4.73	43.74	7.58	35.13	14.31	30.21	7.59	2.59
2005	9.35	4.73	36.72	–	37.73	20.44	32.10	9.87	4.87
2006	9.35	5.76	41.12	8.22	38.47	20.44	32.67	9.80	4.80
2007	9.71	6.83	42.43	13.83	40.60	19.40	33.18	10.68	5.68

SCHEDULE OF RETIRED MEMBERS BY TYPE
as of June 30, 2007

Amount of Monthly Benefit	Number of Retirees	Type of Retirement 1	2	3	4	5	6	7
$ 1- 300	15,191	11,490	1,402	1,013	26	30	880	350
301- 600	15,247	9,216	2,408	1,109	98	78	1,947	391
601- 900	12,801	7,718	1,858	891	104	111	1,860	259
901- 1,200	11,335	7,186	1,518	691	118	273	1,404	145
1,201 - 1,500	9,749	6,240	1,319	566	87	385	1,060	92
1,501 - 1,800	8,363	5,518	1,269	358	80	389	691	58
1,801 - 2,100	7,675	5,388	1,022	287	86	352	516	24
2,101 - 2,400	6,616	883	4,740	209	88	324	357	15
2,401 - 2,700	5,837	618	4,523	163	57	214	252	10
2,701 - 3,000	4,935	4,174	334	114	37	151	117	8
Over 3000	10,606	9,027	482	293	71	595	125	13
	108,355	67,458	20,875	5,694	852	2,902	9,209	1,365

Type of Retirement:

1 – Normal retirement for age and service
2 – Early retirement
3 – Survivor payment – normal or early retirement
4 – Survivor payment – death in service
5 – Accidental disability retirement
6 – Ordinary disability retirement
7 – Survivor payment – disability retirement

OF RETIREMENT AND OPTION SELECTED

#Option Selected							
Max.	**Opt. 1**	**Opt. 2**	**Opt. 3**	**Opt. 4**	**Opt. 5**	**Opt. 6**	**Opt. 7**
6,502	3,530	1,933	1,191	1,124	451	448	12
5,507	3,136	1,881	1,834	1,748	378	751	12
4,352	2,183	1,579	1,726	1,925	295	729	12
3,514	1,802	1,700	1,559	1,715	347	692	6
2,710	1,549	1,612	1,430	1,500	347	595	6
2,279	1,288	1,446	1,209	1,282	299	556	4
2,250	1,135	1,234	1,107	1,224	218	499	8
2,184	827	1,032	929	1,123	174	339	8
1,797	698	961	841	978	191	362	9
1,647	621	601	719	962	92	287	6
4,218	971	1,287	1,660	1,816	161	463	30
36,960	17,740	15,266	14,205	15,397	2,953	5,721	113

Option Selected:

Max. – At member's death, all payments cease. Surviving beneficiary(ies) will receive pro-rated payment for the number of days in the final month.

Opt. 1 – Guarantees return of the present value of the retirement benefit less the total payments already paid to the member.

Opt. 2 – Guarantees the same payment to the designated beneficiaries for their lifetime.

Opt. 3 – Guarantees one half the member's payment to the designated beneficiaries for their lifetime.

Opt. 4 – Guarantees return of the member's accumulated contributions and interest less the member's accumulated reserves already paid.

Opt. 5 – Guarantees the same payment to the designated beneficiaries for their lifetime, unless the beneficiaries predecease the respective members. Allowance then increases to the maximum.

Opt. 6 – Guarantees one half the member's payment to the designated beneficiaries for their lifetime, unless the beneficiaries predecease the respective members. Allowance then increases to the maximum.

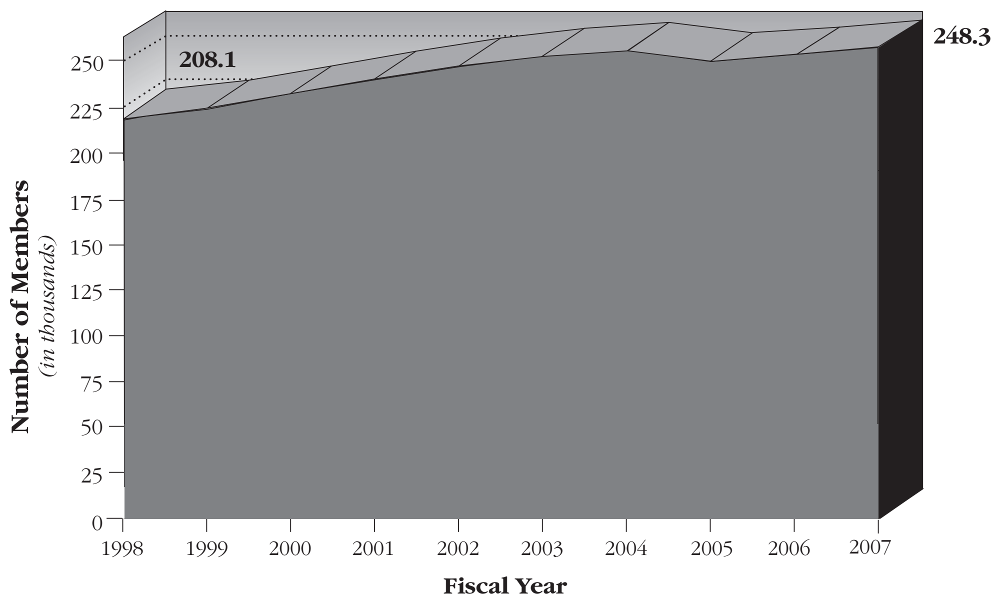
Opt. 7 – Special option calculation performed by actuary.

TEN-YEAR HISTORY OF ACTIVE MEMBERSHIP BY PLAN

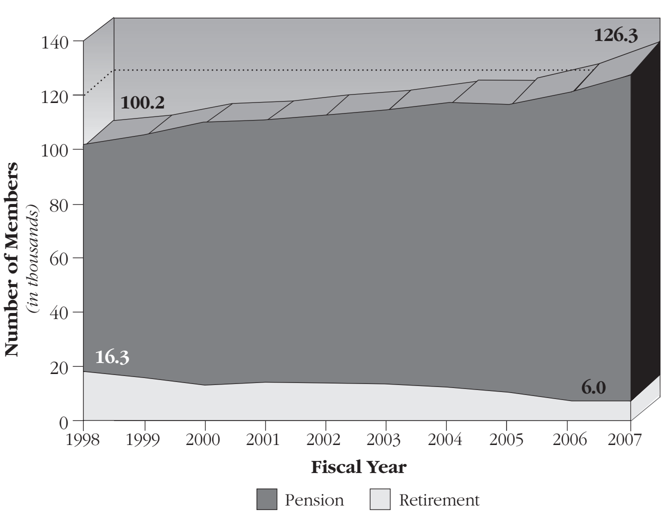
Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Local Fire and Police
1998	208,139	16,311	83,877	14,521	90,515	289	1,659	776	191
1999	214,339	14,949	88,882	14,034	93,414	296	1,676	892	196
2000	222,100	13,491	94,154	13,614	97,517	296	1,658	1,166	204
2001	227,799	12,126	98,508	13,312	100,420	294	1,602	1,367	170
2002	234,478	10,913	103,483	13,053	103,429	291	1,616	1,476	217
2003	235,594	9,776	106,383	12,696	103,151	300	1,583	1,543	162
2004	232,772	8,675	107,092	11,800	101,581	297	1,489	1,756	82
2005	235,714	7,606	110,327	11,160	102,845	297	1,486	1,930	63
2006	240,583	6,678	114,693	11,398	103,784	310	1,499	2,178	62
2007	248,289	5,963	120,333	11,389	106,566	310	1,470	2,344	63

* Includes members of the Maryland General Assembly and Correction Officers.

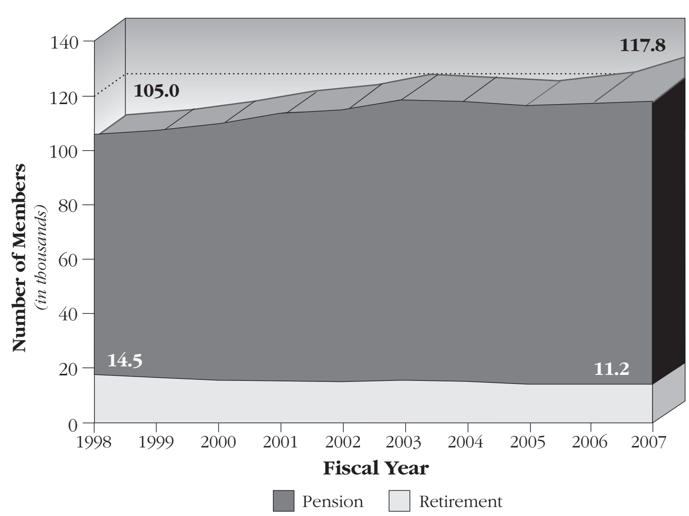
TOTAL SYSTEM MEMBERSHIP



MEMBERSHIP IN TEACHERS' PLANS



MEMBERSHIP IN EMPLOYEES' PLANS

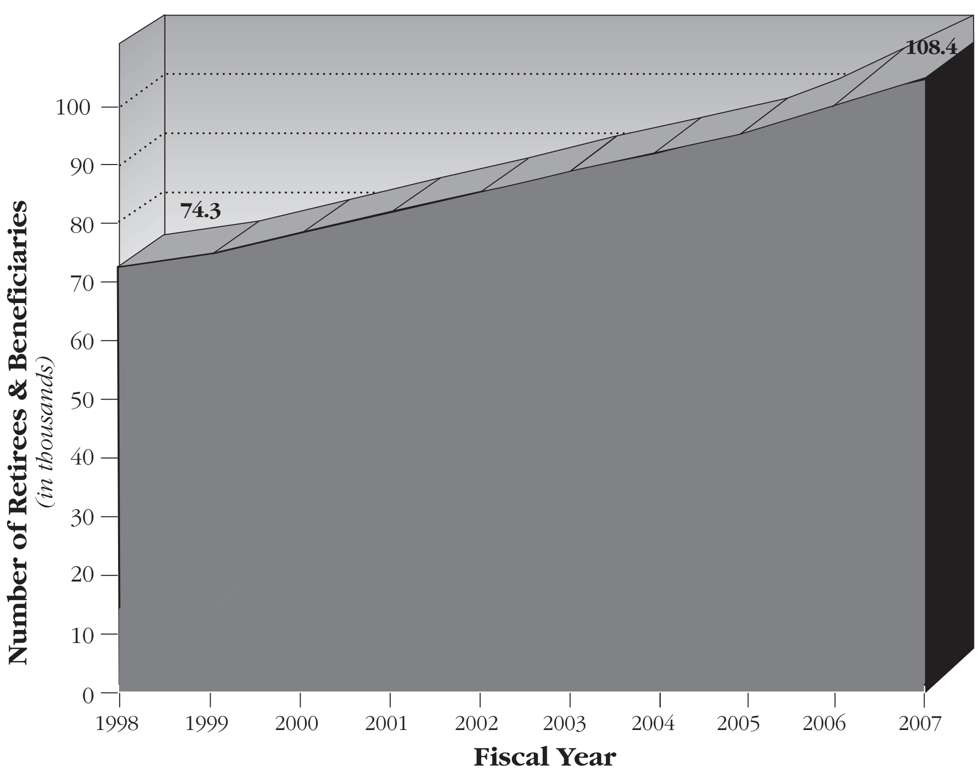


TEN-YEAR HISTORY OF RETIREES AND BENEFICIARIES BY PLAN

Fiscal Year	Total	Teachers' Retirement	Teachers' Pension	Employees' Retirement*	Employees' Pension	Judges' Retirement	State Police Retirement	Law Enforcement Officers' Pension	Local Fire and Police
1998	74,339	27,841	6,499	25,827	12,513	275	1,234	139	11
1999	77,478	28,383	7,674	25,730	13,937	284	1,286	170	14
2000	80,773	29,061	9,084	25,489	15,241	285	1,388	206	19
2001	84,185	29,599	10,527	25,212	16,702	297	1,518	309	21
2002	87,367	29,989	11,931	24,904	18,205	311	1,598	403	26
2003	90,803	30,305	13,370	24,662	19,929	306	1,695	503	33
2004	94,880	30,598	15,093	24,559	21,913	309	1,790	581	37
2005	100,196	30,921	17,170	24,633	24,525	316	1,909	708	14
2006	103,831	31,138	19,141	24,271	26,216	330	1,937	782	16
2007	108,355	31,023	21,016	24,408	28,631	335	2,063	863	16

* Includes members of the Maryland General Assembly and correctional officers.

TOTAL SYSTEM RETIREES AND BENEFICIARIES



TEN-YEAR HISTORY OF REVENUES BY SOURCE AND EXPENSES BY TYPE

(Expressed in Thousands)

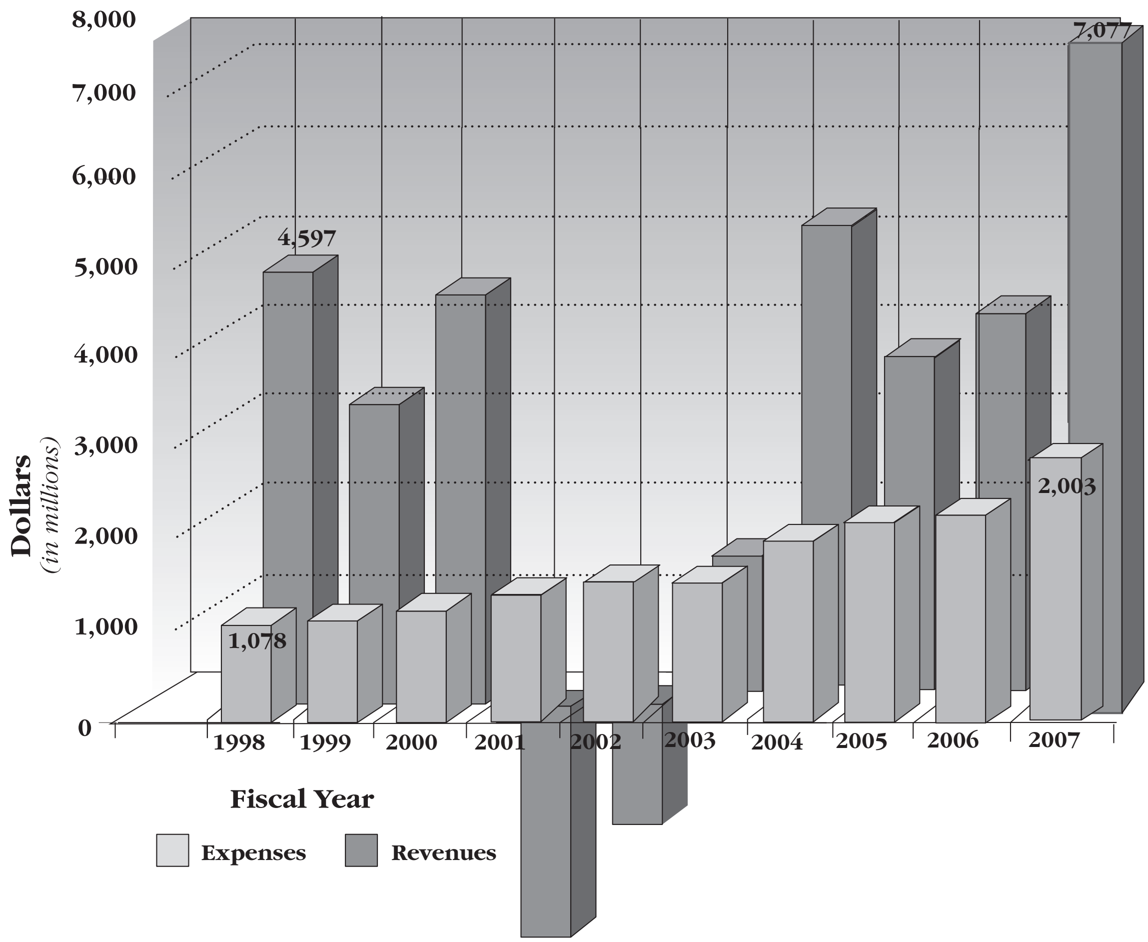
REVENUES

Fiscal Year	Members' Contributions	Employers' and Other Contributions	Annual Covered Payroll	Employers' and Other Contributions as a Percent of Covered Payroll	Net Investment Income	Total Revenues
1998	$ 78,609	$ 735,788	$ 5,900,456	12.47%	$ 3,782,237	$ 4,596,634
1999	162,342	693,353	6,312,417	10.98	2,225,398	3,081,093
2000	182,507	682,422	6,725,870	10.15	3,487,722	4,352,651
2001	189,769	634,309	7,255,036	8.74	(3,138,763)	(2,231,418)
2002	199,304	581,371	7,867,794	7.39	(2,265,315)	(1,486,293)
2003	207,584	606,900	8,134,419	7.46	756,747	1,571,231
2004	204,158	632,052	8,069,481	7.83	4,202,632	5,038,842
2005	208,997	670,554	8,603,761	7.79	2,766,389	3,645,940
2006	215,077	720,876	9,287,576	7.76	3,225,649	4,161,602
2007	319,274	833,782	9,971,012	8.36	5,924,070	7,077,126

EXPENSES

Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
1998	$ 1,047,774	$ 10,441	$ 20,007	$ 1,078,222
1999	1,115,086	24,742	16,898	1,156,726
2000	1,190,954	19,751	16,805	1,227,510
2001	1,272,804	24,823	16,977	1,314,604
2002	1,372,325	20,064	17,476	1,409,865
2003	1,474,257	21,352	16,310	1,511,919
2004	1,570,622	17,376	11,942	1,599,940
2005	1,697,397	22,386	19,162	1,738,945
2006	1,829,468	18,579	16,455	1,864,502
2007	1,965,872	21,271	16,021	2,003,164

TEN-YEAR HISTORY OF REVENUES VS. EXPENSES



PRINCIPAL PARTICIPATING EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	2007			1998		
	Covered Employees	Rank	Percentage of Total System	Covered Employees	Rank	Percentage of Total System
Participating Government						
State of Maryland	311,735	1	87%	247,855	1	88%
All other (Participating Municipalities)	44,909	2	13%	34,623	2	12%
Total System	356,644			282,478		

Governmental Units Participating in the Systems

as of June 30, 2007

Allegany Community College
Allegany County Board of Education
Allegany County Commission
Allegany County Housing Authority
Allegany County Library
Allegany County Transit Authority
Annapolis, City of
Anne Arundel County Board of Education
Anne Arundel County Community College
Anne Arundel County Economic Opportunity Commission
Berlin, Town of
Brunswick, Town of
Calvert County Board of Education
Cambridge, City of
Caroline County Board of Education
Carroll County Board of Education
Carroll County Public Library
Carroll Soil Conservation District
Catoctin & Frederick Soil Conservation District
Cecil County Board of Education
Cecil County Commission
Cecil County Library
Charles County Community College
Chesapeake Bay Commission
Chestertown, Town of
Cheverly, Town of
Cresaptown Civic Improvement Association
Crisfield, City of
Crisfield Housing Authority
Cumberland, City of
Cumberland, City of – Police Department
Denton, Town of
District Heights, City of
Dorchester County Board of Education
Dorchester County Commission
Dorchester County Roads Board
Eastern Shore Regional Library
Emmitsburg, Town of
Federalsburg, Town of
Frederick County Board of Education
Frostburg, Town of
Fruitland, City of
Garrett County Board of Education
Garrett County Community Action Committee
Garrett County Office for Children, Youth and Family
Greenbelt, City of
Hagerstown, City of
Hagerstown Junior College
Hancock, Town of
Harford Community College
Harford County Board of Education
Harford County Government
Harford County Library
Housing Authority of Cambridge
Howard Community College
Howard County Board of Education
Howard County Community Action Committee
Hurlock, Town of
Hyattsville, City of
Kent County Board of Education
Kent County Commissioners
LaPlata, Town of
Manchester, Town of
Maryland Health & Higher Education Facilities Authority
Maryland Transit Administration
Middletown, Town of
Montgomery College
Mount Airy, Town of
Mount Rainier, City of
New Carrollton, City of
North Beach, Town of
Northeast Maryland Waste Disposal Authority
Oakland, Town of
Oxford, Town of
Pocomoke City
Preston, Town of
Prince Georges Community College
Prince Georges County Board of Education
Prince Georges County Crossing Guards
Prince Georges County Government
Prince Georges County Memorial Library
Princess Anne, Town of
Queen Anne's County Board of Education
Queen Anne's County Commission
Queenstown, Town of
Ridgely, Town of
Rockhall, Town of
St. Mary's County Board of Education
St. Mary's County Commission
Salisbury, City of
Shore up!
Snow Hill, Town of
Somerset County Board of Education
Somerset County Commission
Somerset County Sanitary District, Inc.
Southern Maryland Tri-County Community Action Committee
St. Mary's County Metropolitan Commission
St. Michaels, Commissioners of
Takoma Park, City of
Talbot County Board of Education
Talbot County Council
Taneytown, Town of
Thurmont, Town of
Tri-County Council of Western Maryland
Tri-County for the Lower Eastern Shore
Upper Marlboro, Town of
Walkersville, Town of
Washington County Board of Education
Washington County Board of License Commission
Washington County Library
Westminister, City of
Worcester County Board of Education
Worcester County Commission

Withdrawn Governmental Units

Allegany County Government
Anne Arundel County Government
Baltimore Metropolitan Council
Bethesda Fire Department
Caroline County Roads Board
Carroll County Government
Chevy Chase Fire Department
Elkton, Town of
Frederick County Government
Garrett County Commission
Garrett County Roads Board
Harford County Liquor Board
Howard County Government
Interstate Commission on the Potomac River Basin
Lexington Market Authority
Maryland Environmental Services
Maryland National Capital Park & Planning Commission
Montgomery County Board of Education
Montgomery County Government
Montgomery County Public Library
St. Mary's Nursing Home
University of Maryland Medical System
Washington County Commission
Washington County License Commissioners
Washington County Roads Board
Washington County Sanitary District
Washington Suburban Sanitary Commission
Wicomico County Department of Recreation and Parks
Wicomico County Roads Board

Plan Summary

Teachers' Retirement System

A COMPOSITE PICTURE

	2007	2006
Total Membership		
Active Vested	4,788	5,445
Active Non-vested	-	4
Vested Former Members	1,175	1,229
Retired Members	31,023	31,138
Active Members		
Number	4,788	5,449
Average Age	58.1	57.4
Average Years of Service	32.9	32.0
Average Annual Salary	$ 80,121	$ 75,950
Retirees & Beneficiaries		
Number	31,023	31,138
Average Age	73.1	73.1
Average Monthly Benefit	$ 2,372	$ 2,253

The Teachers' Retirement System (TRS) was established on August 1, 1927 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Prior to January 1, 1980, membership in the TRS was a condition of employment for State and local teachers and certain board of education, public library and community college employees, unless those who were eligible elected to participate in an optional retirement program. Effective July 1, 1971 Baltimore City teachers and retired teachers were included in the TRS.

Effective January 1, 1980, the TRS was effectively closed to new membership when the Teachers' Pension System (TPS) was established. Individuals who were members of the TRS on December 31, 1979, continue their TRS membership unless, and until, they elected to transfer to the TPS prior to January1, 2005.

Member Contributions

All member contributions to the TRS are based on a specified percentage of annual earnable compensation. Members who elected in 1984 to receive unlimited future cost-of-living adjustments (COLA) contribute 7% if enrolled after June 30, 1973. Members enrolled before July 1, 1973 contribute the lesser of 7% or 2% more than the rate of contribution in effect on the date of their enrollment. This option is referred to as Selection A (Unlimited COLA).

Members who elected in 1984 to receive limited future COLA's contribute 5% if enrolled after June 30, 1973. Members enrolled before July 1, 1973 contribute the lesser of 5% or the rate of contribution in effect on the date of their enrollment. This option is referred to as Selection B (Limited COLA).

All other TRS members contribute **in accordance with the provisions of the Teachers' Pension System**. This option is referred to as Selection C (Combination Formula), that provides a two-part benefit calculation upon retirement.

Members who are in Selection A, B, or C will remain in these until their retirement. As of January 1, 2005, they were no longer permitted to change selections.

Service Retirement Allowances

Eligibility — TRS members are eligible for full service retirement allowances upon attaining age 60 or upon accumulating 30 years of eligibility service regardless of age.

Allowances — Full service retirement allowances equal 1/55 (**1.818**%) of the highest three years' average final **compensation** (AFC) multiplied by the number of years and months of accumulated creditable service. Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to date of retirement. Service is accrued based on a full normal school year (ten months).

Early Retirement Allowances

Eligibility — TRS members are eligible for early service retirement allowances upon accumulating at least 25 years of eligibility service prior to attaining age 60.

Allowances — Early service retirement allowances equal the amount payable for a full service retirement reduced by 0.5% for each month by which the retirement date precedes the earlier of the date on which the member reaches age 60, or the date on which the member would have completed 30 years of service. The maximum reduction for a TRS member is 30 percent. The maximum reduction for a TRS member who elected Selection C is 30% on the first part and 42% on the second part of the benefit calculation.

Ordinary Disability Retirement Allowances

Eligibility — TRS members are eligible for ordinary disability retirement allowances upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances — Ordinary disability retirement allowances generally equal 1/55 (1.818%) of the highest three years' AFC multiplied by the number of years of accumulated creditable service.

Accidental Disability Retirement Allowances

Eligibility — TRS members are eligible for accidental disability benefits if the Medical Board certifies that, in the course of job performance and as the direct result of an accidental injury, they became totally and permanently disabled.

Allowances — Accidental disability allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, plus 2/3 (66.7%) of AFC. Allowances may not exceed the members' AFC.

Death Benefits

Eligibility — To be eligible for death benefits, TRS members must have either accumulated at least one year of eligibility service prior to the date of death or died in the line of duty.

Benefits — The benefit provided upon death for TRS members equals the members' annual earnable compensation at the time of death plus accumulated contributions. Under certain circumstances, surviving spouses who were named as sole primary beneficiaries may elect to receive either the aforementioned lump sum payment, or a monthly allowance calculated under Option 2 (100% survivor option).

Vested Retirement Allowances

Eligibility — TRS members are eligible for vested retirement allowances after separation from service and upon reaching normal retirement age, provided that at least five years of eligibility service was accumulated prior to separation.

Allowances — Vested allowances equal the normal service retirement allowances computed on the basis of the members' accumulated creditable service and AFC at the point of separation.

If members do not withdraw their contributions, and die before attaining age 60, their accumulated contributions are returned to the designated beneficiary.

Cost-of-Living Adjustments

Retirement allowances are adjusted each year based on the Consumer Price Index. Cost-of-living adjustments (COLAs) are effective July 1st of each year and are applied to all allowances payable for the year.

Selection A (Unlimited COLA) — TRS members who elected Selection A, agreed to contribute no more than 7% of earnable compensation in return for unlimited annual COLAs after retirement.

Selection B (Limited COLA) — TRS members who elected Selection B, agreed to contribute at the required TPS employee contribution rate of earnable compensation in return for COLAs that are limited to 5% annually after retirement.

Selection C (Combination Formula) — TRS members who elected Selection C, agreed to contribute at the required TPS employee contribution rate of earnable compensation in return for COLAs that, similar to the retirement benefit, are divided into two parts.

Part 1: The COLAs are unlimited unless the member elected Selection B prior to electing Selection C, in which case COLAs are limited to 5%.

Part 2: The COLAs are limited to 3%.

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the retirement allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Except for a spouse or disabled child, the beneficiary designated under Option 2 or 5 cannot be more than 10 years younger than the retiree (IRS Regulation).

Workers' Compensation Benefits Reduction

Disability retirement allowances are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits are payable. The workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums.

Pension Changes

Effective July 1, 2007, the employee contribution for selection C, Part 2 increases to 4%.

Teachers' Pension System

A COMPOSITE PICTURE

	2007	2006
Total Membership		
Active Vested	65,362	63,968
Active Non-vested	33,427	30,901
Vested Former Members	21,544	19,824
Retired Members	21,016	19,141
Active Members		
Number	98,789	94,869
Average Age	43.4	43.4
Average Years of Service	10.8	11.0
Average Annual Salary	$ 53,914	$ 51,179
Retirees & Beneficiaries		
Number	21,016	19,141
Average Age	66.4	65.6
Average Monthly Benefit	$ 1,310	$ 1,241

The Teachers' Pension System (TPS) was established on January 1, 1980 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Membership in the TPS is a condition of employment for all State and local teachers and certain board of education, public library and community college employees (unless those who are eligible elect to participate in an optional retirement program). As of July 1, 2006, all TPS members, except for those who transfer from the TRS after April 1, 1998, are members of the Teachers' Pension System - Alternate Contributory Pension Selection (ACPS).

Member Contributions

All ACPS members are required to contribute 4% of earnable compensation during FY2007. As of July 1, 2008 the member contribution becomes 5%.

Service Pension Allowances

Eligibility — ACPS members are eligible for full service pension allowances upon accumulating 30 years of eligibility service regardless of age. Absent 30 years of eligibility service, members must meet one of the following conditions to be eligible for full service pension allowances:

- age 62, & five years of eligibility service
- age 63, & four years of eligibility service
- age 64, & three years of eligibility service
- age 65 or older, & two years of eligibility service

Allowances — ACPS service pension allowances equals 1.2% of AFC for service accrued prior to July 1, 1998, plus 1.8% of AFC for service accrued on and after July 1, 1998.

Early Service Pension Allowances

Eligibility — ACPS members are eligible for early service pension allowances upon attaining age 55 with at least 15 years of eligibility service.

Allowances — Early service pension allowances equal the amount payable for a full service pension reduced by 0.5% for each month by which the retirement date precedes the date on which the members reach age 62. The maximum reduction is 42 percent.

Ordinary Disability Pension Allowances

Eligibility — ACPS members are eligible for ordinary disability pension allowances upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances — Ordinary disability pension allowances equal the full service pension allowances if the members are at least age 62 on the date of retirement. Otherwise, the allowances equal the full service pension allowances computed as though the members had continued to accrue service credits until age 62 without any change in the rate of earnable compensation.

Accidental Disability Pension Allowances

Eligibility — ACPS members are eligible for accidental disability pension allowances if the Medical Board certifies that, in the course of their job performance and as the direct result of an accidental injury, they became totally and permanently disabled.

Allowances — Accidental disability pension allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, and 2/3 (66.7%) of AFC. Allowances may not exceed the members' AFC.

Death Benefits

Eligibility — To be eligible for death benefits, ACPS members must have either accumulated at least one year of eligibility service prior to the date of death or died in the line of duty.

Benefits — The benefit provided upon death of ACPS members equals the members' annual earnable compensation on the date of death plus accumulated contributions. Under certain circumstances, surviving spouses who were named as sole primary beneficiaries may elect to receive either the aforementioned lump sum payment, or a monthly allowance calculated under Option 2 (100% survivor option).

If at the time of death, the members had:

- accrued at least 25 years of eligibility service, or
- attained age 55 with at least 15 years of eligibility service, or
- attained age 62, then

the survivor's allowance is determined as if the members had been eligible to retire, and had in fact retired.

Vested Pension Allowances

Eligibility — ACPS members are eligible for vested pension allowances after separation from service and upon reaching age 62, provided that at least five years of eligibility service was accumulated prior to separation. Members may be eligible for reduced vested pension allowances upon attaining age 55 with at least 15 years of eligibility service. Vested allowances are reduced by 0.5% for each month by which the allowance commencement date precedes the date on which the members attain age 62.

Allowances — Vested allowances equal the normal service pension allowances computed on the basis of the members' accumulated creditable service and AFC at the point of separation.

If members do not withdraw their contributions, and die before attaining age 62, their accumulated contributions are returned to the designated beneficiary.

Cost-of-Living Adjustments

Retirement allowances for ACPS members are adjusted each year based on the Consumer Price Index. COLAs are effective July 1st of each year and, are compounded annually. The System limits the increase a retiree may receive to a maximum of 3%.

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the pension allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Except for a spouse or disabled child, the beneficiary designated under Option 2 or 5 cannot be more than 10 years younger than the retiree (IRS regulation).

Workers' Compensation Benefits Reduction

Disability retirement allowances are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits were paid. The workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums.

Pension Changes

Effective July 1, 2007, the employee contribution rate increases to 4%.

Employees' Retirement System

A COMPOSITE PICTURE

	2007	2006
Total Membership		
Active Vested	9,978	10,120
Active Non-vested	2	1
Vested Former Members	1,260	1,258
Retired Members	24,408	24,271
Active Members		
Number	9,980	10,121
Average Age	44.4	44.9
Average Years of Service	15.5	16.2
Average Annual Salary	$ 47,347	$ 46,222
Retirees & Beneficiaries		
Number	24,408	24,271
Average Age	73.4	73.3
Average Monthly Benefit	$ 1,385	$ 1,311

The Employees' Retirement System (ERS) was established on October 1, 1941 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Prior to January 1, 1980, membership in the ERS was a condition of employment for all State employees (other than those eligible for participation in another system) and employees of participating governmental units. For certain elected and appointed officials, participation in ERS was optional.

Effective January 1, 1980, the ERS was effectively closed to new membership when the Employees' Pension System (EPS) was established. Individuals who were members of the ERS on December 31, 1979, continue their ERS membership unless, and until, they elect to transfer to the EPS, prior to January 1, 2005..

Member Contributions

All member contributions to the ERS are based on a specified percentage of annual earnable compensation. Members who elected in 1984 to receive unlimited future COLAs contribute 7% if enrolled after June 30, 1973. Members enrolled before July 1, 1973 contribute the lesser of 7% or 2% more than the rate of contribution in effect on their date of enrollment. This option is referred to as Selection A (Unlimited COLA).

Members who elected in 1984 to receive limited future COLAs contribute 5% if enrolled after June 30, 1973. Members enrolled before July 1, 1973 contribute the lesser of 5% or the rate of contribution in effect on the date of their enrollment. This option is referred to as Selection B (Limited COLA).

Members who are State employees as well as members whose employer elected to participate in the Employees' Pension System contribute in accordance with the provisions of the Employees' Pension System elected by the employer. This option is referred to as Selection C (Combination Formula).

Members who are in Selection A, B, or C will remain in these until their retirement. As of January 1, 2005, they were no longer permitted to change selections.

Service Retirement Allowances

Eligibility — ERS members are eligible for full service retirement allowances upon attaining age 60 or upon accumulating 30 years of eligibility service regardless of age.

Allowances — Full service retirement allowances equal 1/55 (1.818%) of the highest three years' AFC multiplied by the number of years and months of accumulated creditable service. Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to date of retirement.

Early Retirement Allowances

Eligibility — ERS members are eligible for early service retirement allowances upon accumulating at least 25 years of eligibility service prior to attaining age 60.

Allowances — Early service retirement allowances equal the amount payable for a full service retirement reduced by 0.5% for each month by which the retirement date precedes the earlier of the date on which the member reaches age 60, or the date on which the member would have completed 30 years of service. The maximum reduction for an ERS member is 30 percent. The maximum reduction for an ERS member who elected Selection C is 30% on the first part and 42% on the second part of the benefit calculation.

Ordinary Disability Retirement Allowances

Eligibility — ERS members are eligible for ordinary disability retirement allowances upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances — Ordinary disability retirement allowances generally equal 1/55 (**1.818%**%) of the highest three years' AFC multiplied by the number of years of accumulated creditable service. However, the ordinary disability benefits can be no greater than **1.818%** of AFC for each year of creditable service the members would have received had they continued to work until age 60.

Accidental Disability Retirement Allowances

Eligibility — ERS members are eligible for accidental disability benefits if the Medical Board certifies that, in the course of job performance and as the direct result of an accidental injury, they became totally and permanently disabled.

Allowances — Accidental disability allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, plus 2/3 (66.7%) of AFC. Allowances may not exceed the members' AFC.

Death Benefits

Eligibility — To be eligible for death benefits, ERS members must have either accumulated at least one year of eligibility service prior to the date of death or died in the line of duty.

Benefits — The benefit provided upon death for ERS members equals the members' annual earnable compensation at the time of death plus accumulated contributions. Under certain circumstances, surviving spouses who were named sole primary beneficiaries may elect to receive either the aforementioned lump sum payment, or a monthly allowance calculated under Option 2 (100% survivor option).

Vested Retirement Allowances

Eligibility — ERS members are eligible for vested retirement allowances after separation from service and upon reaching normal retirement age, provided that at least five years of eligibility service was accumulated prior to separation.

Allowances — Vested allowances equal the normal service retirement allowances computed on the basis of the members' accumulated creditable service and AFC at the point of separation.

If members do not withdraw their contributions, and die before attaining age 60, their accumulated contributions are returned to the designated beneficiary.

Cost-of-Living Adjustments

Retirement allowances are adjusted each year based on the Consumer Price Index. COLAs are effective July 1st of each year and are applied to all allowances payable for the year.

Selection A (Unlimited COLA) — ERS members who elected Selection A, agreed to contribute no more than 7% of earnable compensation in return for unlimited annual COLAs after retirement.

Selection B (Limited COLA) — ERS members who elected Selection B, agreed to contribute no more than 5% of earnable compensation in return for COLAs that are limited to 5% annually after retirement.

Selection C (Combination Formula) — ERS members who elected Selection C, agreed to contribute at the required EPS employee contribution rate of earnable compensation in return for COLAs that, similar to the retirement benefit, are divided into two parts:

Part 1: The COLAs are unlimited unless the members elected Selection B prior to electing Selection C, in which case COLAs are limited to 5%.

Part 2: Generally, the COLAs are limited to 3%; however, if the employers participate in the Non-Contributory Pension System, the COLA's are limited to 3% of the initial allowance.

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the retirement allowance at the date of retirement minus the total amount of payments (less COLA's) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Except for a spouse or disabled child, the beneficiary designated under Option 2 or 5 cannot be more than 10 years younger than the retiree (IRS regulation).

Workers' Compensation Benefits Reduction

Disability retirement allowances, except for employees of participating governmental units, are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits are payable. The workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums.

Miscellaneous Provisions for Members of the Maryland General Assembly

Upon attaining age 60 with at least eight years of eligibility service, members of the Maryland General Assembly are eligible for a service retirement allowance. The allowance is equal to 3% of the current salary for an active legislator multiplied by the number of years of accumulated creditable service (to a maximum of 22 years, 3 months). The maximum benefit payable is two-thirds of the current legislative salary.

Reduced benefits are payable upon attaining age 50 with at least eight years of eligibility service. Early service retirement allowances equal the amount payable for a full service retirement reduced by 0.5% for each month by which the retirement date precedes the date on which the member reaches age 60.

Legislators contribute 5% of annual earnable compensation during the first 22 years and 3 months of service, after which no employee contributions are required. If legislators are separated from service before accumulating eight years of eligibility service, they may elect to continue to contribute an amount equal to the combined member and employer contributions until the date the members would have completed eight years of eligibility service. By doing so, such legislators would be eligible for a retirement allowance equal to 24% of the current salary for an active legislator, payable at age 60 (or a reduced benefit upon attaining age 50).

Legislators who have a minimum 8 years of service and who are certified as disabled may resign their positions and receive a normal service retirement allowance. Upon the death of a legislator, the surviving spouse receives 50% of the amount to which the legislator would have been entitled. However, the surviving spouse of a legislator who dies in office with fewer than eight years of eligibility service will receive a lump sum death benefit equal to the sum of the legislator's annual earnable compensation at the time of death, plus accumulated contributions.

Legislators' retirement allowances are adjusted based on changes in the salaries of current members of the General Assembly.

Miscellaneous Provisions for State Correctional Officers

State correctional officers, within certain grades, as well as dietary, maintenance and supply correctional officers, become members of the Correctional Officers' Retirement System (CORS) as a condition of employment. Correctional officers are eligible for normal service retirement allowances upon accumulating 20 years of eligibility service. Members are eligible to receive vested retirement allowance payments upon attaining age 55. For administrative convenience, the CORS is accounted for as a component of the ERS.

Pension Changes

Effective July 1, 2007, the employee contribution rate for Selection C, Part 2 increases to 4%.

Employees' Pension System

A COMPOSITE PICTURE

	2007	2006
Total Membership		
Active Vested	56,166	56,828
Active Non-vested	22,553	20,151
Vested Former Members	27,847	26,805
Retired Members	28,631	26,216
Active Members		
Number	78,719	76,979
Average Age	47.3	47.2
Average Years of Service	12.1	12.3
Average Annual Salary	$ 45,017	$ 43,198
Retirees & Beneficiaries		
Number	28,631	26,216
Average Age	66.8	66.5
Average Monthly Benefit	$ 794	$ 743

The Employees' Pension System (EPS)

The Employees' Pension System (EPS) is administered in accordance with the State Personnel and Pension Article of the Annotated Code. The EPS consists of three parts:

Non-Contributory Pension System (NCPS)

The NCPS was established on January 1, 1980 and consists only of those participating employers that did not elect membership in the Employees' Contributory Pension System (ECPS) or the Alternate Contributory Pension Selection (ACPS).

Employees' Contributory Pension System (ECPS)

The ECPS was established as of July 1, 1998 and consists of those participating employers that elected participation in the ECPS effective July 1, 1998 through July 1, 2005 and did not elect membership in the ACPS as of July 1, 2006. Employees who transferred from the ERS to the EPS after April 1, 1998 were not eligible for the benefits of the ECPS.

Alternate Contributory Pension Selection (ACPS)

The ACPS was established as of July 1, 2006 and consists of all eligible State employees and those participating employers that elected participation in the ACPS effective July 1, 2006. Employees who transferred from the ERS to the EPS after April 1, 1998 were not eligible for the benefits of the ACPS.

Member Contributions

NCPS — Members are required to contribute 5% of earnable compensation in excess of the social security wage base.
ECPS — Members are required to contribute 2% of earnable compensation.
ACPS — Members are required to contribute 4% of earnable compensation during FY2008 and 5% as of July 1, 2008 thereafter.

Service Pension Allowances

***Eligibility* — All EPS** members are eligible for full service pension allowances upon accumulating 30 years of eligibility service regardless of age. Absent 30 years of eligibility service, members must meet one of the following conditions to be eligible for full service pension allowances:

- age 62, & five years of eligibility service
- age 63, & four years of eligibility service
- age 64, & three years of eligibility service
- age 65 or older, & two years of eligibility service

Allowances

NCPS - Full service pension allowances equal .8% of the highest three consecutive years AFC up to the SSIL, plus 1.5% of the AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. For purposes of computing pension allowances, the SSIL is the average of the social security wage bases for the 35 years immediately prior to the year of retirement.

ECPS - Full service pension allowance equals 1.2% of AFC for service accrued prior to July 1, 1998 plus 1.4% of the AFC for service accrued on or after July 1, 1998.

ACPS - Full service pension allowance equals 1.2% of AFC for service accrued prior to July 1, 1998 plus 1.8% of the AFC for service accrued on or after July 1, 1998.

Early Service Pension Allowances

***Eligibility* — All EPS** members are eligible for early service pension allowances upon attaining age 55 with at least 15 years of eligibility service.

Allowances — Early service pension allowances equal the amount payable for a full service pension reduced by 0.5% for each month by which the retirement date precedes the date on which the member reaches age 62. The maximum reduction is 42 percent.

Ordinary Disability Pension Allowances

***Eligibility* — All EPS** members are eligible for ordinary disability pension allowances upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances — Ordinary disability pension allowances equal the full service pension allowances if the members are at least age 62 on the date of retirement. Otherwise, the allowances equal the full service pension allowances computed as though the members had continued to accrue service credits until age 62 without any change in the rate of earnable compensation.

Accidental Disability Pension Allowances

Eligibility — All EPS members are eligible for accidental disability pension allowances if the Medical Board certifies that, in the course of their job performance and as the direct result of an accidental injury, they became totally and permanently disabled.

Allowances — Accidental disability pension allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, and 2/3 (66.7%) of AFC. Allowances may not exceed the members' AFC.

Death Benefits

Eligibility — To be eligible for death benefits, EPS members must have either accumulated at least one year of eligibility service prior to the date of death or died in the line of duty.

Benefits — The benefit provided upon death of all EPS members equals the members' annual earnable compensation on the date of death plus accumulated contributions. Under certain circumstances, surviving spouses who were named sole primary beneficiaries may elect to receive either the aforementioned lump sum payment, or a monthly allowance calculated as payment under Option 2 (100% survivor option).

If at the time of death, the members had:

- accrued at least 25 years of eligibility service, or
- attained age 55 with at least 15 years of eligibility service, or
- attained age 62, then

the survivor's allowance is determined as if the members had been eligible to retire.

Vested Pension Allowances

Eligibility — All EPS members are eligible for vested pension allowances after separation from service and upon reaching age 62, provided that at least five years of eligibility service was accumulated prior to separation. Members may be eligible for reduced vested pension allowances upon attaining age 55 with at least 15 years of eligibility service. Vested allowances are reduced by 0.5%

for each month by which the allowance commencement date precedes the date on which the members attain age 62.

Allowances — Vested allowances equal the normal service pension allowances computed on the basis of the members' accumulated creditable service and AFC at the point of separation.

EPS members who elect to withdraw their accumulated contributions, remain eligible to receive the employer-provided share of the vested benefit. If EPS members do not withdraw their contributions, and die before attaining age 62, their accumulated contributions are returned to the designated beneficiary.

Cost of Living Adjustments

Retirement allowances for all EPS members are adjusted each year based on the Consumer Price Index. The Cost of Living Adjustments (COLA) are effective July 1st of each year.

NCPS - Limits the increase the retiree may receive to a maximum of 3% of the initial allowance annually.

ECPS - Limits the increase the retiree may receive to a maximum of 3%, compounded annually

ACPS - Limits the increase the retiree may receive to a maximum of 3%, compounded annually

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the pension allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Except for a spouse or disabled child, the beneficiary designated under Option 2 or 5 cannot be more than 10 years younger than the retiree (IRS regulation).

Workers' Compensation Benefits Reduction

Disability retirement allowances, except for retirees of a participating governmental unit, are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits were paid.

The workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums.

Judges' Retirement System

A COMPOSITE PICTURE

	2007	2006
Total Membership		
Active Vested	297	296
Active Non-vested	-	-
Vested Former Members	13	14
Retired Members	335	330
Active Members		
Number	297	296
Average Age	56.7	56.4
Average Years of Service	9.4	9.4
Average Annual Salary	$ 126,729	$ 121,416
Retirees & Beneficiaries		
Number	335	330
Average Age	76.6	77.7
Average Monthly Benefit	$ 5,290	$ 5,085

The Judges' Retirement System (JRS) was established on June 30, 1969 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Membership is a condition of employment for all District Court, Circuit Court, Court of Appeals and Court of Special Appeals judges. Full-time masters in chancery and masters in juvenile causes appointed prior to June 30, 1989 and Workers' Compensation Commission judges are also members of the JRS.

Member Contributions

All members contribute 6% of annual earnable compensation during the first 16 years of service. After accruing 16 years of credit, no member contributions are required.

Service Retirement Allowances

Eligibility — JRS members are eligible for full service retirement allowances upon attaining age 60 or upon retirement by order of the Court of Appeals, with at least 16 years of eligibility service. All JRS members must retire at age 70.

Allowances — Full service retirement allowances equal 2/3 (66.7%) of the current salary for an active judge holding a comparable position. If members retire with less than 16 years of eligibility service, the annual retirement allowance is prorated accordingly.

Early Retirement Allowances

Eligibility — JRS members are not eligible for early service retirement allowances.

Disability Retirement Allowances

Eligibility — JRS members are eligible for disability retirement allowances upon receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances — The disability retirement allowances for JRS members generally equal the full service retirement allowance based on the members' actual length of service. However, for members completing at least three years of eligibility service, the disability benefit will be no less than 1/3 (33.3%) of the members' annual earnable compensation at the time of retirement.

Death Benefits

Eligibility — All JRS members, and former members, are eligible for death benefits regardless of age or length of service.

Benefits — The benefit provided upon death for JRS members, former members or retirees equals 50% of a service retirement allowance payable to the surviving spouse.

Special provisions apply in circumstances where deceased JRS members, former members or retirees have no surviving spouses, but are survived by a minor child (under age 18). In the event that deceased JRS members or former members are not survived by spouses or minor children, then all accumulated contributions are refunded to the estate.

Vested Retirement Allowances

Eligibility — JRS members are immediately vested. Members leaving the bench before attaining age 60 are eligible to receive their service retirement allowances commencing upon attaining age 60.

Allowances — Vested allowances equal the normal service retirement allowances computed on the basis of the members' accumulated creditable service and the **salary** of active judges holding comparable positions.

JRS members may elect to withdraw their accumulated contributions in lieu of receiving vested retirement allowances.

Optional Forms of Payment

Generally, JRS retirement allowances are paid as a 50% joint and survivor annuity to the retirees' surviving spouse, or if there is no spouse, to any child under age 18. If the retirees have neither a living spouse nor children under 18 at retirement, retirees may select any one of the following six payment options.

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the retirement allowance at the date of retirement minus the total amount of payments made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Once retired, neither the option nor designated beneficiary(ies) may be changed. Except for a spouse or disabled child, the beneficiary designated under Option 2 or 5 cannot be more than 10 years younger than the retiree (IRS regulation).

State Police Retirement System

A COMPOSITE PICTURE

	2007	2006
Total Membership		
Active Vested	1,071	1,109
Active Non-vested	345	332
Vested Former Members	54	58
Retired Members	2,063	1,937
Active Members		
Number	1,416	1,441
Average Age	35.4	35.3
Average Years of Service	11.5	11.4
Average Annual Salary	$ 58,751	$ 55,967
Retirees & Beneficiaries		
Number	2,063	1,937
Average Age	59.0	59.0
Average Monthly Benefit	$ 3,295	$ 3,237

The State Police Retirement System (SPRS) was established on July 1, 1949 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Membership is a condition of employment for all uniformed officers of the Maryland State Police. The Superintendent of the Maryland State Police may elect membership in either the SPRS or the EPS.

Member Contributions

All SPRS members contribute 8% of annual earnable compensation during employment.

Service Retirement Allowances

Eligibility — SPRS members are eligible for full service retirement allowances upon attaining age 50 or upon accumulating 22 years of eligibility service regardless of age. Except for the Superintendent, all SPRS members must retire at age 60.

Allowances — Full service retirement allowances equal 2.55% of AFC up to a maximum 71.4% of AFC (28 years). Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to date of retirement.

Early Retirement Allowances

Eligibility — SPRS members are not eligible for early service retirement allowances.

Ordinary Disability Retirement Allowances

Eligibility — SPRS members are eligible for ordinary disability retirement allowances upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job functions.

Allowances — Ordinary disability retirement allowances generally equal 2.55% of the AFC multiplied by the number of years of creditable service up to a maximum of 28 years. The minimum ordinary disability retirement allowance is 35% of AFC.

Special Disability Retirement Allowances

Eligibility — SPRS members are eligible for special disability benefits if the Medical Board certifies that they became totally and permanently incapacitated for duty arising out of or in the actual performance of duty.

Allowances — Special disability allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, and 2/3 (66.7%) of AFC. Allowances may not exceed the members' AFC.

Ordinary Death Benefits

Eligibility — To be eligible for ordinary death benefits, SPRS members must have accumulated at least one but less than two years of eligibility service prior to the date of death.

Benefits — The ordinary death benefit equals the members' annual earnable compensation at time of death plus accumulated contributions.

Special Death Benefits

Members in Service

Eligibility — To be eligible for special death benefits, SPRS members in service must have accumulated at least two years of eligibility service prior to the date of death or died in the line of duty.

Benefits — The special benefit provided upon the death of SPRS members in service equals 50% of the members' annual earnable compensation at time of death paid as an annuity plus return of accumulated contributions. In cases where the deceased members are not survived by a spouse, the decedents' children or dependent parents, if any, will continue to receive an annuity equal to 50% of the members' annual earnable compensation until the youngest child reaches age 18, or for the life of each dependent parent. The special death benefit for troopers killed in the line of duty is 2/3 (66.7%) of AFC.

Survivor Benefit

Eligibility — To be eligible for survivor benefits, SPRS retirees must have retired on either a service retirement allowance or a disability allowance.

Benefits — The survivor benefit provided upon the death of an SPRS retiree equals 50% of the retirees' retirement allowance, paid as an annuity. In cases where the deceased members are not survived by a spouse, the decedents' children, if any, will continue to receive 50% of the retirees' allowance until the youngest child reaches age 18.

In addition to the survivor benefits explained above, the survivors of both deceased members in service and deceased retirees may be eligible for certain additional benefits based upon Title II of the federal Social Security Act.

Vested Retirement Allowances

Eligibility — SPRS members are eligible for vested retirement allowances after separation from service and upon reaching age 50, provided that at least five years of eligibility service was accumulated prior to separation.

Allowances — Vested allowances equal the normal service retirement allowances computed on the basis of the members' accumulated creditable service and AFC at the point of separation.

SPRS members may elect to withdraw their accumulated contributions in lieu of receiving vested retirement allowances. If members do not withdraw their contributions, and die before attaining age 50, their accumulated contributions are returned to the designated beneficiary.

Cost-of-Living Adjustments

Retirement allowances are adjusted each year based on the Consumer Price Index. COLAs are effective July 1st of each year and are applied to all allowances payable for the year.

Optional Forms of Payment

Generally, SPRS retirement allowances are paid as a 50% joint and survivor annuity to the retirees' spouse, or if there is no spouse, to any child under age 18. If the retirees have neither a living spouse nor children under 18 at retirement, the retirees may select any one of the following six payment options.

Option 1: Payment guarantees a cash reserve equal to the present value of the retirement allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Except for a spouse or disabled child, the beneficiary designated under Option 2 or 5 cannot be more than 10 years younger than the retiree (IRS regulation).

Workers' Compensation Benefits Reduction

Disability retirement allowances are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits are payable. The workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums.

Deferred Retirement Option Program

SPRS members are eligible to participate in a Deferred Retirement Option Program (DROP). To participate, the SRPS member must have at least 22 years of creditable service, but less than 28 years, and be under age 60. The maximum period of participation is 4 years. During the DROP period, the SPRS member is deemed retired and the retirement allowance is placed in an account earning 6% interest. At the end of the DROP period, the lump sum held in the DROP account is paid to the SPRS retiree. The SPRS member must end employment and fully retire at the end of the DROP period.

LAW ENFORCEMENT OFFICERS' PENSION SYSTEM

A COMPOSITE PICTURE

	2007	2006
Total Membership		
Active Vested	1,643	1,546
Active Non-vested	574	517
Vested Former Members	127	115
Retired Members	863	782
Active Members		
Number	2,217	2,063
Average Age	39.9	39.8
Average Years of Service	11.2	11.2
Average Annual Salary	$ 55,036	$ 51,706
Retirees & Beneficiaries		
Number	863	782
Average Age	57.0	56.8
Average Monthly Benefit	$ 2,400	$ 2,345

THE LAW ENFORCEMENT OFFICERS PENSION SYSTEM (LEOPS) was established on July 2, 1990 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Membership in the LEOPS is a condition of employment for all uniformed law enforcement officers of the Maryland State Department of Natural Resources; the Maryland Investigative Services Unit; the Maryland Transportation Authority Police Force; the Baltimore City Sheriff's Department; the State Fire Marshall's Office; the University System of Maryland Police Force; Morgan University Police Force; the BWI Airport Fire and Rescue Department; the Department of General Services Police Force; the Department of Health and Mental Hygiene; the Motor Vehicle Administration; and the Department of Labor, Licensing, and Regulation; Field Enforcement Bureau; Firefighters for Martin's Airport Aviators employed by the Department of State Police. In addition, membership includes law enforcement officers, firefighters, and paramedics employed by a governmental unit that elects to participate in LEOPS.

The LEOPS consists of two separate components — a retirement plan (closed to new members January 1, 2005) and a pension plan. Retirement plan provisions are applicable to those officers who, on the date they elected to participate in the LEOPS, were members of ERS (closed as of January 1, 2005). Pension plan provisions are applicable to all other LEOPS members.

Member Contributions

All member contributions to the LEOPS are based on the members' annual earnable compensation. Members subject to retirement plan provisions that elected to receive unlimited future COLAs contribute 7%. This option is referred to as Selection A (Unlimited COLA).

Members subject to retirement plan provisions that elected to receive limited future COLAs contribute 5%. This option is referred to as Selection B (Limited COLA).

Members subject to pension plan provisions contribute 4% of annual earnable compensation during employment.

Service Retirement Allowances

Eligibility — LEOPS members are eligible for full service retirement allowances upon attaining age 50 or upon accumulating 25 years of eligibility service regardless of age.

Allowances — For members subject to the retirement plan provisions, full service retirement allowances equal 2.3% of AFC for the first 30 years of creditable service, plus 1.0% of AFC for each additional year.

For members subject to the pension system provisions, full service pension allowances equal 2.0% of AFC up to a maximum benefit of 60% of AFC (30 years of credit).

Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to the date of retirement.

Early Retirement Allowances

Eligibility — LEOPS members are not eligible for early service retirement allowances.

Ordinary Disability Retirement Allowances

Eligibility — LEOPS members are eligible for ordinary disability retirement allowances upon completing five years of eligibility service and receiving Medical Board certification as to their permanent incapacity to perform their necessary job functions.

Allowances — Ordinary disability retirement allowances for LEOPS members subject to retirement plan provisions equal the greater of the normal service retirement allowance or 25% of AFC.

Ordinary disability retirement allowances for LEOPS members subject to pension plan provisions equal the full service pension allowance if the member is at least age 50 on the date of retirement. Otherwise, the allowances equal full service pension allowances computed as though the member had continued to work until age 50 without any change in the rate of earnable compensation.

Accidental Disability Retirement Allowances

Eligibility — LEOPS members are eligible for accidental disability benefits if the Medical Board certifies that they became totally and permanently incapacitated for duty arising out of or in the actual performance of duty.

Allowances — Accidental disability allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, and 2/3 (66.7%) of AFC. Allowances may not exceed the members' AFC.

Ordinary Death Benefits

Eligibility — To be eligible for ordinary death benefits, LEOPS members must have accumulated at least one but less than two years of eligibility service prior to the date of death.

Benefits — The ordinary death benefit equals the members' annual earnable compensation at the time of death plus accumulated contributions.

Special Death Benefits

Members in Service

Eligibility — To be eligible for special death benefits, LEOPS members in service must have accumulated at least two years of eligibility service prior to the date of death or died in the line of duty.

Benefits — The special death benefit provided upon death for LEOPS members in service equals 50% of the applicable ordinary disability allowance. In cases where the deceased members are not survived by a spouse, the decedents' children, if any, will continue to receive the special death benefit until the youngest child reaches age 18. The special death benefit for officers killed in the line of duty is 2/3 (66.7%) of AFC.

Survivor Benefits

Eligibility — To be eligible for survivor benefits, LEOPS retiree must have retired on either a service retirement allowance or a disability allowance.

Benefits — The survivor benefit provided upon death for LEOPS retiree equals 50% of the retiree' retirement allowance, paid as an annuity. In cases where the deceased members are not survived by a spouse, the decedents' children, if any, will continue to receive 50% of the retiree' allowance until the youngest child reaches age 18.

Vested Pension Allowances

Eligibility — LEOPS members are eligible for vested pension allowances after separation from service and upon attaining age 50, provided that they accumulated at least five years of eligibility service prior to separation.

Allowances — Vested allowances equal the normal service retirement or pension allowances computed on the basis of the members' accumulated creditable service and AFC at the date of separation.

Cost-of-Living Adjustments

Retirement allowances are adjusted each year based on the Consumer Price Index. COLAs are effective July 1st of each year and are applied to all allowances payable for the year. For LEOPS members subject to retirement plan provisions, annual COLAs are determined under the various methods applicable to ERS members. Each method is explained below:

Selection A (Unlimited COLA) — LEOPS members who elected Selection A (while enrolled in the ERS), agreed to contribute 7% of earnable compensation in return for unlimited annual COLAs after retirement.

Selection B (Limited COLA) — LEOPS members who elected Selection B (while enrolled in the ERS), agreed to contribute no more than 5% of earnable compensation in return for COLAs which are limited to 5% annually after retirement.

For all other LEOPS members, annual COLA's are limited to 3% of the annual allowance.

Optional Forms of Payment

Generally, LEOPS retirement allowances are paid as a 50% joint and survivor annuity to the retiree' spouse, or if there is no spouse, to any child under age 18. If the retiree have neither a living spouse nor children under 18 at retirement, the retiree may select any one of the following six payment options.

Option 1: Payment guarantees a cash reserve equal to the excess of the present value of the retirement allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Except for a spouse or disabled child, the beneficiary designated under Option 2 or 5 cannot be more than 10 years younger than the retiree (IRS regulation).

Workers' Compensation Benefits Reduction

Disability retirement allowances are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits are payable. The workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree' monthly health insurance premiums.

Deferred Retirement Option Program

LEOPS members are eligible to participate in a Deferred Retirement Option Program (DROP). To participate, the LEOPS member must have at least 25 years of creditable service, but less than 30 years. The maximum period of participation is 5 years. During the DROP period, the LEOPS member is deemed retired and the retirement allowance is placed in an account earning 6% interest. At the end of the DROP period, the lump sum held in the DROP account is paid to the LEOPS retiree. The LEOPS member must end employment and fully retire at the end of the DROP period.

Local Fire and Police System

A COMPOSITE PICTURE

	2007	2006
Total Membership		
Active Vested	44	36
Active Non-vested	12	19
Vested Former Members	7	7
Retired Members	16	16
Active Members		
Number	56	55
Average Age	38.6	37.2
Average Years of Service	12.1	11.0
Average Annual Salary	$ 38,954	$ 36,520
Retirees & Beneficiaries		
Number	16	16
Average Age	59.4	58.4
Average Monthly Benefit	$ 1,491	$ 1,451

The Local Fire and Police System (LFPS) was established on July 1, 1989 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. Effective January 1, 2005, membership in the LFPS was closed to new employers. Current employers continue to participate and membership remains mandatory for their law enforcement officers and fire fighters.

Member Contributions

Members subject to pension plan provisions contribute 5% of earnable compensation in excess of the social security wage base.

Service Retirement Allowances

Eligibility — All LFPS members are eligible for full service retirement or pension allowances upon accumulating 25 years of eligibility service, regardless of age. Also, regardless of the length of service, LFPS retirement plan members are eligible for full service retirement allowances upon attaining age 60; and LFPS pension plan members are eligible for full service pension allowances upon attaining age 62.

Allowances — For members subject to retirement plan provisions, full service retirement allowances equal 1/50 (2.0%) of AFC for the first 30 years of creditable service, plus 1/100 (1.0%) of AFC for each additional year.

For members subject to pension plan provisions, full service pension allowances equal 1.0% of AFC up to the SSIL, plus 1.5% of AFC in excess of the SSIL, multiplied by the number of years of accumulated creditable service. LFPS pension plan members whose employers do not contribute to social security receive 1.5% of their entire AFC as a pension allowance.

Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to the date of retirement.

Early Retirement Allowances

Eligibility — LFPS members are not eligible for early service retirement allowances.

Ordinary Disability Retirement Allowances

Eligibility — LFPS members are eligible for ordinary disability retirement allowances upon completing five years of eligibility service with Medical Board certification as to their permanent incapacity to perform their necessary job functions.

Allowances — Ordinary disability retirement allowances for LFPS members equal the full service pension allowance if the member is at least age 62 on the date of retirement. Otherwise, the allowances equal full service pension allowances computed as though the member had continued to work until age 62 without any change in the rate of earnable compensation.

Accidental Disability Retirement Allowances

Eligibility — LFPS members are eligible for accidental disability benefits if the Medical Board certifies that, in the course of job performance and as the direct result of an accidental injury, they became totally and permanently disabled.

Allowances — Accidental disability allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, and 2/3 (66.7%) of AFC. Allowances may not exceed the members' AFC.

Ordinary Death Benefits

Eligibility — To be eligible for death benefits, LFPS members must have accumulated at least one year of eligibility service prior to the date of death or died in the line of duty.

Benefits — The benefit provided upon death for LFPS members equals the members' annual earnable compensation at the time of death plus accumulated contributions. Under certain circumstances, surviving spouses who were named sole primary beneficiaries may elect to receive either the aforementioned lump sum payment or a monthly allowance calculated under Option 2 (100% survivor option).

Vested Pension Allowances

Eligibility — LFPS members are eligible for vested pension allowances after separation from service and upon attaining age 62, provided that they accumulated at least five years of eligibility service prior to separation. LFPS members subject to pension plan provisions may be eligible for reduced vested pension allowances upon attaining age 55 with at least 15 years of eligibility service. Vested allowances are reduced by 0.5% for each month by which the allowance commencement date precedes the date on which the members attain age 62.

Allowances — Vested allowances equal the normal service retirement or pension allowances computed on the basis of the members' accumulated creditable service and AFC at the date of separation.

Cost-of-Living Adjustments

Retirement and pension allowances are adjusted each year based on the Consumer Price Index. COLA's are effective July 1st of each year and are applied to all allowances payable for the year. For all LFPS members who are not former members of the ERS, annual COLAs are limited to 3% of the initial allowance annually.

Optional Forms of Payment

Option 1: Payment guarantees a cash reserve equal to the present value of the retirement allowance at the date of retirement minus the total amount of payments (less COLAs) made to the date of death.

Option 2: 100% joint and survivor annuity.

Option 3: 50% joint and survivor annuity.

Option 4: Payment guarantees a minimum return of the members' accumulated contributions.

Option 5: 100% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Option 6: 50% joint and survivor annuity with adjustment to maximum benefit if beneficiary predeceases retiree.

Except for a spouse or disabled child, the beneficiary designated under Option 2 or 5 cannot be more than10 years younger than the retiree (IRS regulation).

Workers' Compensation Benefits Reduction

Disability retirement allowances are generally reduced by workers' compensation benefits paid after retirement if, and to the extent that, such benefits are for the same injury and the same period of time for which the retirement benefits are payable. The workers' compensation benefit reduction cannot reduce any retirement allowance to less than the amount necessary to cover the retiree's monthly health insurance premiums.

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